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**H.R. 3838; HOUSING AND COMMUNITY  
DEVELOPMENT ACT OF 1994—PART 1**

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H.R. 3838, Housing and Community De...

**HEARINGS**  
BEFORE THE  
SUBCOMMITTEE ON  
HOUSING AND COMMUNITY DEVELOPMENT  
OF THE  
COMMITTEE ON BANKING, FINANCE AND  
URBAN AFFAIRS  
HOUSE OF REPRESENTATIVES  
ONE HUNDRED THIRD CONGRESS

SECOND SESSION

\_\_\_\_\_  
FEBRUARY 24,  
MARCH 10, 16, and 17, 1994  
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Printed for the use of the Committee on Banking, Finance and Urban Affairs

**Serial No. 103-120**



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# H.R. 3838, HOUSING AND COMMUNITY DEVELOPMENT ACT OF 1994—PART 1

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## **H.R. 3838; HOUSING AND COMMUNITY DEVELOPMENT ACT OF 1994**

**THURSDAY, FEBRUARY 24, 1994**

HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON HOUSING  
AND COMMUNITY DEVELOPMENT,  
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS,  
*Washington, DC.*

The subcommittee met, pursuant to notice, at 9:30 a.m., in room 2128, Rayburn House Office Building, Hon. Henry B. Gonzalez [chairman of the subcommittee] presiding.

Present: Chairman Gonzalez, Representatives Vento, Waters, Klein, Maloney, Gutierrez, Rush, Roybal-Allard, Barrett of Wisconsin, Furse, Velazquez, Watt, Roukema, Bereuter, Baker of Louisiana, Knollenberg, Lazio, Bachus, Castle, and Sanders.

Also present: Representative Frank.

Chairman GONZALEZ. The subcommittee will come to order.

This morning we welcome the Secretary of HUD, Mr. Cisneros; Richard Gentry, representing the National Association of Housing and Redevelopment Officials; and our long time good friend, Moises Loza, of the Housing Assistance Council, to begin discussion concerning the housing and community development reauthorization legislation for fiscal years 1995 and 1996, which is, of course, this year a must, and the extension of the Affordable Housing Programs.

I introduced H.R. 3838, the Housing and Community Development Act of 1994 with 20 members of the subcommittee as original cosponsors on a bipartisan basis, on February 10. This legislation includes the regular reauthorization required and many of the initiatives that were a part of the bill that was proposed by the Secretary.

It is now hoped that this hearing will be the opening shot in the discussions for the legislative session immediately ahead of us, and to spark discussions from all quarters interested in housing and community development.

The subcommittee will schedule a series of hearings this March and April addressing the major issues and programs included in the bill so that we may build a record, mark up and report the bill, and bring this important legislation to the House floor as soon as possible. And we have a target date to do that.

This bill includes the authorization required for the Public and Indian Housing Programs; the Assisted Housing Programs; the FHA Insurance Programs; the Community Development Block Grant Programs; the Home Investment Partnership Program; Pres-

ervation Program; the Supportive Housing Programs; and the Regulatory Programs. It includes authorization for the Rural Housing Program administered by the Farmers Home Administration, and for the programs for the homeless under the Stewart B. McKinney Act.

The bill also contains initiatives that I have championed, including a revision of the Emergency Homeowners Relief Act to provide assistance to homeowners facing foreclosure and loss of their homes, and a merger and rewrite of the Section 8 Certificate Voucher Programs. The merger I initially proposed in 1992 will mean better protection for low-income families and relief from administrative burdens for housing authorities.

I have also provided several rural housing initiatives since then, in addition to technical and clarifying changes, including the streamlined refinancing authority for rental housing and a technical assistance and capacity building program for Native Americans, the Native Alaskan tribes, and members of tribes who have been underserved by FmHA Housing Programs.

We are particularly interested in Mr. Loza's comments about these provisions.

At the same time, the Housing and Community Development Act of 1994 includes many initiatives and technical changes that were reported in the administration's 1993 legislative package, and also advocated by members of NAHRO and the other housing interest groups.

It incorporates most notably restructured and simplified reforms of the Multi-family Property Disposition Program, the Community Partnership Against Crime Program, or COMPAC, a new Economic Grants Program as part of the Section 108 Loan Guarantee Program, and provisions which will foster mixed-income public housing communities.

The administration has made major strides in reversing Federal policy in a creative and constructive way. Yet, more Federal participation and cooperation is critical for maintaining this momentum. Federal policy priorities have produced in the past no real sustained domestic strategy on investment in affordable housing, or in the effort to rebuild our Nation's cities and towns.

The prospects for maintaining even level funding are quite bleak. The interested agencies have shown that doing more with less is both critical and welcome, although far from what should be considered acceptable levels.

As this hearing begins the legislative process for the Reauthorization bill, we are particularly interested in your initial comments, Mr. Secretary, about the proposals included in H.R. 3838, and any initial ideas on your 1994 proposals on the legislation.

Finally, I would be remiss if I did not commend you and your Department for your speedy and dedicated efforts to provide critically needed assistance to communities and families devastated by the California earthquake. The response has been unprecedented.

I look forward to your testimony, and at this point recognize Mrs. Roukema.

[The prepared statement of Chairman Gonzalez can be found in the appendix.]

Mrs. ROUKEMA. Thank you, Mr. Chairman.



Mr. Secretary, I certainly want to join the chairman in enthusiastically welcoming you here today. As we begin the process of reauthorization of these housing programs for the next 2 fiscal years, we certainly look forward to receiving your views. And I will try and keep my comments short so that we can maximize your time, but there are some things I do believe have to be said.

Mr. Chairman, I might also note, while the Secretary is here, that there was a very favorable article in this week's *U.S. News and World Report* on the Secretary and commending him for his activities in the earthquake relief as well as special observations regarding his commitment to HUD. So I think we are going to have a sustained relationship here over the next 2 to 3 years.

But, Mr. Chairman, before I begin my remarks, I want to also note with respect to the legislation that you have referenced here, H.R. 3838, which is your version of the housing reauthorization, I was most pleased to join you in that bipartisan effort. It doesn't mean there won't be improvements and changes as we go along, but I think it is a very worthwhile initiative, and demonstrates good leadership. And I was pleased to join you.

As you may know, I have also introduced several housing-related bills dealing with improvements for the HOME Program and limited block grant for McKinney homeless assistance and public housing reform. Many of the provisions in my bills have been requested by the administration and have been incorporated into the chairman's bill.

I hope that we will have serious consideration to other issues that I have introduced more recently. But going on to our purpose here today, obviously, our subcommittee has two housing budgets before it, one submitted by the Secretary and the other implied in H.R. 3838. We all understand the HUD problems and the fiscal realities of the budget deficit we are facing, and so it does make us face up to some extraordinarily tough choices and difficult ways of setting our priorities.

The funding levels in H.R. 3838, while larger overall, better reflect the necessary spending balance that we need to maintain among all of our housing programs. We will have to work very diligently in the months ahead to reconcile these two budget requests.

Now, Mr. Secretary, I don't think it comes as any surprise to you that your proposal raised a few eyebrows. I think my raised eyebrows were conveyed to you in a letter that you recently received. And it is with regret that I have to point some of these out at the beginning of this hearing: Reductions in funding for programs such as the HOME investment partnership; public housing development modernization and operating subsidies; and particularly the section 202 housing for the elderly.

Those reductions in funding I find totally unacceptable, and I must say as we go through this hearing today, I am going to probe a little more deeply, with what time we have, to understand the rationale in those cuts.

Certainly, the HOME Program, it seems to me, should be encouraged in every way possible, since all the public figures, public policy people I know, whether they be at the State level, at the Federal level, or in academia, seem to be pointing in the direction of

more local control, more public/private partnerships, and the kinds of things that we are trying to do in the HOME Program.

I might also stress again the question of housing for the elderly and the Section 202 Program, which I have found over my 10 or 12 years here has been one of the most not only politically popular but seemingly one of the most efficient programs we have, and still leaves a great problem with respect to housing our elderly, because the waiting lists are long in every area of the country that I am aware of.

Mr. Secretary, I will again remind you that you have made at least two visits to my State of New Jersey, both of them related to the issues before us today, both in Newark, and one was in respect to the Hayes homes in Newark, which I think is a graphic example of the desperate need for more public housing renovation monies, and I don't know how your budget is consistent with those graphic needs there.

The other, of course, is the new communities program, which you and I visited together, and seems to me to be a model program that if HOME is properly functioning in conjunction with other State funds, that it is a model for the country and could be used as demonstration projects throughout the country.

With that, Mr. Chairman, I will conclude my opening statements, but we do look forward to your testimony here today and to some of the difficult questions that we have to ask, but sincerely intended.

Thank you, Mr. Secretary.

Thank you, Mr. Chairman.

[The prepared statement of Congresswoman Roukema can be found in the appendix.]

Chairman GONZALEZ. Thank you, Mrs. Roukema.

I would like to advise that we have to push things this morning. The Secretary has limited time to be with us this morning and the House program also changed. We had to postpone some events that will carry over today and the House will open at 10 o'clock. We may also have some procedural votes right away.

So I want to recognize Mr. Vento for some brief remarks if he so wishes, and then ask for consent that other members who wish to do so submit in writing any opening testimony they feel they want to provide for the record.

Mr. Vento.

Mr. VENTO. Mr. Chairman, thank you. I will be very brief.

I only take the time because I must depart for another hearing, but I wanted to personally congratulate the Secretary and the interagency council on the work that was done on the draft report on homelessness and appreciate his attention to the task force effort, which you and other members participated in. And I think there is a strong correlation between the policy paths that have been established and recognized in members, and I hope they will be a good template for our work on the rewrite of McKinney and the other programs necessary to meet the number one priority of the Secretary.

I commend him for the personal effort and the risk, frankly, that he takes in terms of trying to tackle that problem. I think there



is a high probability for frustration and disappointment among a lot of our constituents that face that problem.

Mr. Secretary, I have a series of issues. I have worked a lot on FHA in the past. I am pleased to see those funds, and especially the Single Family Program, is on a sounder footing today based on the courts. I have continued concerns and obviously want to pay attention to your requests for the Multi-family Program and the reforms that are essential there under the lead of Mr. Retsinas in that area.

I think we might be able to agree that where new construction could be postponed, modernization should be emphasized. While there may be some delay in some areas in terms of utilizing modernization funds, other areas are up to speed. We need that focus, and that sort of contradiction or dilemma in the issue is one that will need to be addressed as we go forward.

There are other concerns but they are specific to the legislative process, and parochial, in some respects.

Therefore, Mr. Chairman, I would request unanimous consent to submit written questions to the Secretary and other witnesses today.

[The questions referred to can be found in the appendix.]

Hopefully, Mr. Secretary, we can proceed with timely responses, so we would appreciate that as we go down this path.

But I want to commend the Secretary on his continued focus on this issue, his presence in L.A., and I note that you had to miss the State of the Union Address, but I think your presence in L.A. and your continued persistence and dedication to these problems is a real signal to the country in terms of the direction that we are going and need to go. I look forward to working with you and the chairman and other members of the subcommittee.

Thank you, Mr. Chairman.

Chairman GONZALEZ. Thank you, Mr. Vento.

As we said, we have unanimous consent from members who wish to place opening statements in the record.

[The prepared statements referred to can be found in the appendix.]

Thank you, Mr. Secretary.

We recognize you to proceed.

#### **STATEMENT OF HON. HENRY G. CISNEROS, SECRETARY, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

Secretary CISNEROS. Thank you, Mr. Chairman. Thank you for inviting me here today. It is a welcome opportunity to share with you some sense of the policy direction for 1994, as well as budget considerations.

With your permission, Mr. Chairman, I would like to also submit my statement for the record, and simply diverge from the normal pattern and spend a couple of minutes offering to the subcommittee some insights into the convergence of our 1994 act and our 1995 budget.

I thought it might be useful, with your permission, if I—

Chairman GONZALEZ. Certainly. Without objection, your prepared statement will be in the record as you gave it to us.

Secretary CISNEROS. Thank you. And I will move through a quick discussion of how our priorities in policy match the budget. So I would like to ask Bruce Katz if he would assist me in turning these charts.

Some of you may not know Bruce. He is the Chief of Staff of the Department. He really does a wonderful job. If there is any need for an immediate response and I am not available, probably the single person that you would want to contact in the Department is Bruce Katz. So I am pleased to introduce him to you today.

Also with us, just if I may, Joe Shuldiner, the Assistant Secretary for Public Housing; he is the head of all public housing efforts at HUD, 30,000 public housing units across the country. Those of you that have public housing issues you want to address, Joe is probably the person to do that. He is really doing a wonderful job.

Bill Gilmartin, Assistant Secretary for Intergovernmental Activities; his responsibilities are to serve the needs of the members' inquiries and constituency work and so forth at HUD. Other members of the staff are here, and as appropriate I would want to introduce them later.

Mr. Chairman, we have stated that there are six action priorities at HUD, and I will walk through those, but I would like to begin by just directing your attention to this chart that speaks to the fiscal year 1994 budget and the proposed fiscal year 1995 budget. You will see that HUD in both budget authority and outlays is a gainer. There were only five Federal departments that gained more than their actual 1994 appropriated levels, and HUD was one of those.

There was a great deal of concern over the course of the budget process. Newspaper reports and so forth had indicated HUD would be cut dramatically. Some of the reports indicated something in excess of \$4 billion of cutbacks.

As you can see, the Department gained \$1 billion in budget authority and \$2 billion in outlays, which I think speaks to the priorities of the President in the areas in which HUD is involved.

The six priorities we have stated begin with our effort to reduce homelessness, and we have tried to make our priorities match our budget proposals, and what you see here is a budget for homelessness that goes from \$823 million in 1994 to \$1.6 billion in 1995. I don't know of another area this large in the Federal Government where there is a doubling of the request for homelessness.

Now, this includes on the policy side our hope that we will be able to reorganize some of the McKinney Homeless Assistance Programs into a more comprehensive initiative, giving communities more flexibility and expanding our level of support. It involves a commitment to use vouchers so that families, particularly families, and that is the fastest growing proportion of the homeless population on the streets today, can get access to permanent housing and bypass the shelter system, which for many families is simply unacceptable, especially where children are involved in long stays in shelters. So that is the thrust of what you see there.

Our second stated priority is to deal with the worst of public housing. And here I will tell you honestly in the budget process we didn't fare as well. Some of the questions you had made and Mrs.



Roukema has raised deserve answers, and we will provide them over the course of this hearing.

What you see there is some reduction, but, for example, despite the fact that it was suggested that we would be \$1 billion off in modernization, we are off \$3.2 billion to \$2.7 billion, and have something on the order of several billions of dollars of modernization funds in the pipeline.

Now, that is not the reason why this was cut. It was cut because in a year of tough priorities, we felt this was an area where we could miss a year. This was the third highest level in the history of the Department, even after the cut. Only 2 years in the entire history of the Modernization Program were higher than what we have proposed here. But, obviously, it is a subject for important discussion.

You see the Severely Distressed Program. We asked last year for \$483 million. The Congress gave us \$778 million. We have asked for an increase, \$500 million over what we have asked for last year, but it is a decrease from the appropriated level because the Congress gave us a substantially higher figure. Senator Mikulski, in another appropriations effort, appropriated more.

You see then, of course, one other serious area for discussion is the operating subsidies cut, and that is a serious reduction, but we are working with the housing authorities to try to mitigate the worst effects of that. Again, in a very tough budget environment, when you try to set priorities you look at places where there is some money in the pipeline and there are some flexibilities that can be imposed, and that is the result in public housing.

This should not be read as a diminution of our views of the importance of the support of public housing. As I have said in other hearings, I believe public housing has a critical and important and continuing place in our housing strategies for the country. This is a momentary, a single-year reduction in what we hope will be a trajectory of increases in order to make the budget work, this year.

The next priority is our commitments to increase affordable housing and homeownership. In 1993, FHA had its second best year ever, insuring more than 1 million mortgages, including 400,000 first-time home buyers. You have followed the turnaround in the housing market. We like to believe that the housing starts and housing sales and housing completions have had a lot to do with the fact that the economy is beginning to turn around.

You know, Mr. Chairman, the close relationship between economic recovery since the end of the war and the housing sector. What you see here is our commitment to increase the Mutual Mortgage Insurance Fund, give Ginnie Mae the funds it needs, the National Homeownership Trust, which has been a priority for us, to triple the homeownership counseling. Every expert tells me we are not going to dramatically increase the numbers of poor people who can go to homeownership without counseling. We need massive counseling. It triples our commitment to counseling. And we have sustained funding levels for the HOPE Programs, which were my predecessor's priorities, given that we cannot raise them to the same level of priority that the previous administration had given them.

Nevertheless, we think there is a place in a broad strategy for conversion to homeownership where possible. It is not going to be the massive, across-the-board conversions of public housing to homeownership that were once suggested, but as Congresswoman Roukema once stated, we were in Newark where we were granting \$1 million to take a newly abandoned public housing project and converting it to a homeownership opportunity, and it proves this is possible in some specific cases where you have the right physical infrastructure and capacity.

You see our commitment there to the pension fund initiative. We are asking that that be heightened. It was so successful this last year, our commitment to try to leverage government funds and persuade pensions and universities and foundations that they should invest in housing on a massive scale. So we are asking for additional work on that.

Also, it was mentioned that the HOME Program is reduced. You see the reduction from \$1.2 billion to \$1 billion. The reason for that primarily is that, although the program is beginning to accelerate and people are beginning to figure out how to use it, it nevertheless lags, and we can go back for about 3 years and still find 50 percent of the funds appropriated for those years not yet used. So there is a pipeline in HOME, and we don't think we are going to hit much of a glitch because we have produced it in this year.

Again, if we had all the money in the world and we could accomplish everything we wanted, you wouldn't see any cuts in this budget, but we have had to make some priority choices, and the priorities are what we have stated.

This is one of the areas that is a gainer for us. It is the so-called fair housing, open housing area. Again, counseling, moving people to opportunities where they exist. We found out when you want to use the Voucher Program to move people to opportunity, they cannot do it just because they get a voucher. They need people to take them and help them find apartments and help them find work. When we do that, we change people's lives, but we need some help in order for people to do that.

Fair housing enforcement is up because of our commitment to fair lending and antidiscrimination efforts. The President signed an order creating the Fair Housing and Fair Lending Council, and that requires the staffing to carry that out.

We will have a new relationship with the Federal Reserve, with the Office of the Comptroller of the Currency, and others to try and get a handle on discrimination in the lending and mortgage transactions insurance and so forth.

Metropolitanwide strategies is an initiative to bring in counties and suburban communities to share responsibilities for housing across an entire metropolitan area to, in effect, engage outlying communities in accepting responsibilities that today result in undue concentration of the very poorest because of the barriers that have been thrown up to metropolitan solutions. And we are looking for communities that want to be models of inclusiveness and openness, to help them make that possible.

And then you see a large commitment to persons with disabilities, and that is a direct result of some of the testimony, some of the admonitions I have received in appearing before this sub-



committee, where members have talked to me about mixing of disabled persons and the elderly in public housing. Many of you have talked to me about the problems associated with the definitions of disabled persons that include persons who are mentally ill, schizophrenic, for example, or recovering drug addicts, who have been mixed in senior citizen settings, so you end up with a relatively healthy, physically healthy 40-year-old, recovering drug addict who likes heavy metal music mixes in senior citizen settings with persons who are frail and elderly, 80 years of age. It is well intentioned but it is difficult to make work. And you gave us authority in 1992 to allow housing authorities to make some separations provided that they could have housing for the disabled.

This takes funding and allocates it so we can make sure we have places for disabled persons in settings that are different from the elderly.

The fifth priority is our community empowerment strategies, Community Development Block Grants. As you can see, their whole level, although we are asking for a \$200 million set-aside for a project we called LIFT, and that is a more project-oriented economic development strategy, to do some of the things that were done with the old UDAG Program, but instead of these signature megastructures of hotels and malls, we are talking about neighborhood economic development opportunities, which we have to do on a project-by-project basis. We think we need to get back in that business, and this is an attempt to use \$200 million for that purpose to set up a competitive grant to communities who want to create jobs in neighborhood settings, and we are asking for a set-aside from CDBG to do that.

Empowerment zones: We have asked for \$500 million to carry out our portion of the empowerment zones. A community viability fund which will focus on community development corporations at community-based organizations, really community organizing.

We find that where we have some funds to help communities organize, that we can do our work better, there is less apathy, there is more involvement. And so community organization of all kinds, from ACORN and ACORN's counseling efforts in Philadelphia to the industrial area's foundation efforts we have had in the south Bronx and east Brooklyn, to efforts with People's Action, which is Gale Cincotta's organization in Chicago, that will help us make the Single Family Disposition Program work in neighborhoods. We have to be able to support some community-based organizations. And that is what we are seeking to do with that.

The NCDI funds there, you will recall, was an authorization you gave us to work with foundations, to try to set up community development corporations. The economic revitalization initiative is the use of the 108 Program, which Congresswoman Waters has been a particular champion for.

And a request to set aside \$100 million to deal with people who are living the worst that I have seen anywhere in America, and that is people living in these border communities. They are American citizens, farmworkers generally, living without running water or without sewage or without electricity, children with sores all over their bodies because they use bathing water out of pesticide tanks, that kind of thing. And we think it is an important priority

for the Housing Department to try to address that. We have no other resources to do it.

Finally, our sixth priority is the internal management issues. As you know, the Department has long been characterized as one which has severe management deficiencies. We have been designated by the GAO as the only Department in the entire Federal Government in which the whole Department is designated at risk. That is not something we are proud of.

We are trying to work our way through it, but it is going to take a while. And then congressionally identified management deficiencies, from computer systems to control systems to matching the people to the jobs, and so forth. And you see here some staffing increases, a small staffing increase that allows us nevertheless to comport with the administration's requirement to cut 1,700 positions over the course of the next 5 years, but at the same time acknowledges, for example, in the area of the FHA Property Disposition Program, that we need about 400 people to do that job. So even as we cut, we have to reallocate people to the key priorities.

Training: If we are going to do with less, we have to make our people better. So we are putting a tremendous amount of emphasis on training our people, long-distance learning through satellite communications in the field offices so that we don't have to spend travel money to bring people back for training into classrooms, but we can do it with modern techniques.

Obviously, this is a Department that deals with a lot of sophisticated financial transactions, and we need well-trained people. It is not as easy as taking someone from one division and putting them in another without substantial retraining.

Finally, our systems development is the computer commitments. You will see quickly the areas where we have been able to exert some savings, and it is the areas where some of the cuts are reflected: Verifying tenant incomes more carefully, using IRS data so we can save some money, reducing section 8 fair market rents. It is a place where we will try to set priorities and increase homeless housing and other areas where we have had to make some savings.

Finally, the next chart speaks to what we have been able to achieve—continuing program reductions, I am sorry. Preservation, public housing, elderly housing, lead-based paint, and congregate services are savings that have occurred.

I thought that might be a more useful expenditure of time than just reading my testimony, which you have, in order that you can match the authorization side of what we have asked for with the money, which after all is where our priorities really are demonstrated, is in the money requests. It is an old saw that if you want to get the answers, you just follow the money. And I think that probably applies where the Department is concerned.

Mr. Chairman, as you know, we have several initiatives before you from 1993, some of which you may want to take up in the regular authorizing cycle, but others of which we have asked for expedited attention, because they speak to critical priorities. The first is the reformation of the Multi-family Priority Disposition Program critical to our efforts to stabilize FHA. I will be happy to speak to that.



The second is a community partnership against crime, which is a remake of the Drug Elimination Program, strengthening it so it applies broadly to communities where HUD operates, and involves the residents more directly.

Third, a very important proposal to reform rent rules in public housing, to make work pay by providing incentives for families to stay together, hold jobs, increase their earned income, basically eliminating the linkage between income and rent so that when income rises, rent does not rise as fast, and setting some ceiling rents.

And, finally, some amendments to the 108 Program that allows it to be used to create better and more efficient loans in communities.

Those four are holdovers from 1993 and we look forward to working with you, if possible, particularly on the property disposition issue to get some expedited treatment of that.

Thank you for allowing me to stray from the prepared statement, and I look forward to answering your questions.

[The prepared statement of Secretary Cisneros can be found in the appendix.]

Chairman GONZALEZ. I would like to say you have done something that I have wondered about for a long time, and I have finally seen it in your presentation here. I think it is an excellent, innovative idea, and I wanted to thank you for that, because you really pinpointed the issues that we all have to face.

Now, when you motioned to the particular GAO chart that brought forth the observation that this is one whole Department, I was in disagreement. I have been here since the creation of HUD, and I have worked with, and come to know every single Secretary since the very first, and in fact I thought maybe you could just change that, and you could be talking about Congress. It would probably receive the same kind of assessment if you had some kind of GAO looking over us.

I am going to ask unanimous consent that all members, as well as myself, be granted permission to submit questions in writing. I will concentrate on a couple of things that you brought forth, and in your explanation of the statistics.

I realize the limitations that an administrator faces nowadays, and the all powerful decisions that are made no matter what the wishes and recommendations of the OMB, and Congress.

One thing mentioned referred to the mixed population dilemma. You will be receiving a letter, if you haven't already, from Congressman Kleczka, who was one of the authors and main architects of the legislation when he was a member of this subcommittee in the previous Congress. It is signed on a bipartisan basis by myself, Mr. Vento, Mr. Barney Frank, Mr. Leach, Mrs. Roukema, and the chairman of the Budget Committee, Mr. Sabo, and we are expressing that this is a sensitive point. And I am going to ask unanimous consent that this letter be placed in the record at this point.

[The letter referred to can be found in the appendix.]

Secretary CISNEROS. Mr. Chairman, I have the letter, and this is a very difficult issue, but we have internally at least addressed it squarely, and in an attempt to carry out the mandate of the Congress to direct housing authorities to utilize their discretion, and

we now have a regulation, it is a very cumbersome regulatory process, the rule is now proposed, and I can give you copies of what is proposed, we are waiting for comments to come back, but frankly we have proposed a rule that we think carries out the intent of the Congress, and it will not make everyone happy because it says housing authorities can separate and provide opportunities for persons who are disabled in other settings, and many of the disabled advocates will comment negatively, I am certain, but frankly it is a real human problem out in the communities, and we think we have done this in a way that solves real problems and carries out the direction that the Congress gave in 1992.

Chairman GONZALEZ. Thank you very much, we will continue to work on that. I think from the very beginning those of us that attended the public hearings, here and in Wisconsin, realize that it is a difficult issue. It is easier to discuss than it is to actually go out there where you are at the cutting edge, and live with it.

But the other thing, again, whatever I say to you by no means should be interpreted as expressing any personal criticism, the majority as well as the minority have indulged in what I consider to be fallacious economic thinking that I have always felt is false economy.

But the cuts and the sharp reduction in public housing development, operating subsidies, and modernization, I realize, are in sharp contradiction with your hopes, desires, and recommendations. But in reality what I have said that we have been doing in the Congress is still applicable. That is the processes that set in, particularly some 8 to 9 years ago with the advent of the Gramm-Rudman-Hollings procedure. What it did was to indulge in the fantasy that if you robbed Peter to pay Paul, you might find funds to do something else. But what ended up is that both Peter and Paul get robbed, and in this case you are taking funds from the poor, very poor, and distressed. But I also realize that Congress has been as much an accomplice as anyone.

I think it is self-defeating, and it hasn't helped the national interest any, and it won't. We will face the accumulation of these issues, and it will be reflected inevitably, as I have said constantly, in social disorder.

But so be it. I hope that something can be done to change the basic mold of thought and bring about some response to the burgeoning needs of our society.

Some of us are very much interested in proceeding. Since the Senate has acted, and the House has acted, we want to have a conference as soon as possible. In fact, we have projected some dates. But we wanted to know, and we wanted to check with you so you could give us some of your thoughts on this, and if you are favorable to taking up this idea in the grants reauthorization.

Secretary CISNEROS. Yes, sir, we would be very favorable to that. We would appreciate whatever you could do on that score. This is a high-cost item for us. It is a great vulnerability, and whatever assistance you could give us, we would appreciate.

Chairman GONZALEZ. We are thinking along that line and have even projected some dates for next month.

Thank you very much.

Mrs. Roukema.



Mrs. ROUKEMA. Mr. Chairman, Mr. Bereuter has a conflict here so I am going to defer to him for the first questions.

Mr. BEREUTER. Thank you.

I am attempting to do the impossible here. Secretary Christopher will introduce his foreign aid recommendations to the Foreign Affairs Committee, so I am going to try to listen to both simultaneously.

Mr. Secretary, no one doubts your commitment to your job. You have very high marks from all reasonable observers. Like the chairman, I have been watching HUD from close up since the beginning. I was at HHFA as an urban planner when HUD was created from it, and as an urban planner and businessman and legislator I was responsible for some oversight of HUD since that time in one way or another.

I do think that it seems to me there is less opportunity for this subcommittee to conduct oversight, to have contact with HUD over the years. It is not a criticism of your time at HUD. It is something that I have seen progressing. And I regret that. I think we do not have enough opportunity to have contact with HUD, and especially the top level people there.

This is a good start, as usual. I am also concerned that while you have responsibility to target the funds because of the deficit and the resources that you have, that you also are in the process, you and your predecessors, are increasingly narrowing the support for the HUD Programs. A great many Americans today, and in fact the majority of Americans see no direct benefit from HUD, and that is a trend that is unfortunately continuing. And it will pay unfortunate dividends in the House and in the Congress.

The CDBG fund is one example of a program that has broadened the appeal and interest of citizens across the country. And I think, frankly, it has been about the most effective use of our resources that I have seen. I regret the fact that I see more of it going for economic development activities, because at times that is simply industrial pirating going on in a very sophisticated fashion.

It was meant to be a community infrastructure and planning program, and now I see in the hustings in HUD now an effort that seems to devote even more of it to job creation and economic development. Very worthy responsibilities, but not the task that CDBG—not what it was meant to be doing. There are other programs in the Federal Government for that purpose.

So I am concerned about that trend. And I am very concerned about the cut of CDBG of \$240 million. I have my doubts about the LIFT Program as long as it pulls money from the CDBG Program. I think you can do everything you want to do, Mr. Secretary, under the CDBG Program than you can do under LIFT. It ought not to come in my judgment from the CDBG Fund Programs. I would look practically any place else if I wanted to sustain support for HUD in your total budget rather than look to cutting CDBG.

I appreciate very much that you managed somehow to maintain existing funding for the Indian Housing Programs, which I appreciate, as do many Americans across especially the western half of the country.

Finally, I noted with some interest, maybe amazement, that it looks like we are taking funding from the elderly and public hous-

ing programs and providing more funding for the homeless initiatives. That is what it looks like. And it seems to me that is schizophrenic and counterproductive.

I would ask the question, when reducing funding for public housing modernization only, isn't this only going to lead to decline in the public housing stock and eventually to greater homelessness?

Finally, I think the Homeless Programs in this country are about the least effectively well-run programs that we have. I expected that from the beginning because Congress clobbered it together in some sort of strange pattern from across the whole Congress and through something out there expecting it to work, multicommittees involved, without much Member impact. So I see this lack of funds for public housing as contributing to homelessness and not a good alternative.

And finally, on an individual basis, I wanted to say that as I have tried to work with HUD over the last few years on dealing with the problem of water quality in individual housing units that are dispersed through individual units, and that is a problem throughout the country, it took your predecessor 3 years to get through the regulation process. And what I had hoped would not happen is happening. In fact, it is creating additional problems for not only HUD's Home Loan Guarantee Programs but the Farmers Home Administration Guarantee Programs as well, since they use your standards.

And the result has been that we are, in contrast to what was set out in legislative direction, we are seeing it very difficult for people to make the investment in homes and then to sell the homes under a Home Loan Guarantee Program of the Federal Government.

That is a very specific instance. I don't expect you to be familiar with the details of that. But it is something that we need some relief on. I am going to try to pursue it in subcommittee through legislative language. I hope you understand, it is out of last resort.

Thank you for listening to my views on this. I would be happy to have any response, now or later, Mr. Secretary.

My compliments to you at the beginning were sincerely felt.

Secretary CISNEROS. Thank you, Mr. Bereuter.

I would be happy to answer on several of the points you made. The first is that I am sorry you feel that there is less accessibility on the part of HUD over the last number of years to the concerns of the Congress or the specific requests of Members. And we have tried to be open. I have a standing policy that if a call comes through from a Congressperson, we try to return it that afternoon, that day. If Congresspersons wish to see me personally, we will come to their office or Members have come to my office.

Congressman Gutierrez, for example, was in my office last week on a housing-related problem in Chicago.

So please know, whatever the trendline may have been, I want to personally be accessible.

Mr. BEREUTER. I didn't mean to suggest the individual response is not there. I was talking about the kind of discussions we have in open forum like this where Members participate.

Secretary CISNEROS. I am open to you in whatever forum is appropriate.



Homelessness, quickly. The reason that we have prioritized homelessness is because, frankly, I don't know any Americans who are suffering by any objective measure like people who have to sleep on sidewalks. I can't think of anyone who is worse off in America. And if our commitment is housing, and these are the people who are the only Americans who are completely unhoused, then we have a commitment to try to do something about that. And it seems to me we could dedicate money in a lot of other places, and yet if we have 1 million people in shelters or on the streets at any given night, that we are failing as a housing commitment from the country.

So that is the reason we have selected homelessness as a first priority, and I think we have learned in recent years some things that work. I was in New York City last Friday afternoon, for example, working with an organization that provides housing to homeless persons who are mentally ill. What an amazing thing to see people who otherwise would be on the streets, in the most inhuman of circumstances, but who are living in warm places, clean places, because the Federal Government has stepped up and made some homeless money available for mentally ill persons.

When we set that kind of a priority, it does by definition require that we take the money from something else. Now, you are correct, it does look as if we have taken it from modernization or development, but the truth of the matter is we have sufficient funds for about 3 years where it is not going to be noticed in terms of the Modernization Program.

Now, we hope by that time to make it up, but the definition of setting priorities is that you have to put your money where your priorities are, and that is the point that we made.

I do not believe that it would result in decline of the public housing stock, because of the other actions we are taking administratively to give housing authorities more flexibility to use funding for modernization and for replacement and so forth on a more flexible basis. So that is my answer to that.

The first line of questioning had to do with whether or not we are doing anything for the middle class, and I have in setting my priorities been very conscious of the fact that when we focus on homelessness and we focus on public housing and fair housing, it looks as if we are a Department that is only for poor Americans, and it is true we have a predisposition toward the very poorest as a Department. But I think it is critical, as you stated, that we maintain our foot in a commitment to middle Americans, to the middle class, and that is where our homeownership strategies come in.

I am excited, for example, about the fact that we are proposing a higher commitment ceiling for Ginnie Mae, that we are proposing raising loan limits for FHA so we can reach more of the people who are middle class or even upper middle class in order to be able to participate in FHA Programs.

Programs like downpayment assistance and interest subsidies and buydowns and favorable mortgage subsidy, all of these are in the works at FHA. The Homeownership Trust Fund that the chairman has advocated, is designed to help people who are middle class

but just starting out, two workers, a young family, who have no starting money to be able to get that first house.

I, personally, believe that this Department needs to affirm its commitment to the American dream, which means for all Americans, middle- and low-income Americans, because people with a lot of money really don't need our help in securing shelter, but certainly the middle class does today.

And, frankly, we have had some initial success. For the first time in about 8 years the homeownership rate in America has begun to climb in a statistically significant way. It has gone from 64.1 to 64.5 percent in the last year.

We can't claim credit for that. It is a lot of factors. It is the market. But I like to think the revitalization of FHA and making FHA competitive again is a force. They had their best year ever last year. And for about 10 years, for the only 10-year span since the end of the war, since the Depression, the homeownership rate had been declining. We have it going in the right direction. We have a long way to go. There are nations on the globe whose homeownership rates are 70 percent. Seventy-five percent in Europe.

We have got to get homeownership going back in the right direction, and that is a middle class program if there ever was, although clearly we want to extend it to low-income persons. I want to sell the ideas that homeownership is not just a way to get shelter, but it is a way to get wealth. For most Americans it is the only wealth they have. It is the only net asset that they have, net worth.

And so we see this as a savings program. We see it as an investment program. We see it as a shelter program. But you are going to see a major commitment to homeownership for the middle class.

Chairman GONZALEZ. The time of the gentleman has expired.

Mr. Gutierrez.

Mr. GUTIERREZ. Thank you very much.

Thank you very much, Mr. Secretary, for meeting last week with me. I really appreciate your attention and that of your staff. I would like to say we reaffirm your word that you do return your calls quickly and promptly.

Mr. Secretary, I share your prioritization of the homeless. Tell me, Mr. Secretary, within the scope of the program, maybe just taking an example, a mother has a couple of kids, finds herself out of a home. How does the program specifically help? Does it help community-based organizations to create housing specifically for this mother with the two children? What does it do? Does it give the housing authorities more additional flexibility? Tell me what I do when someone walks into my office and where I might send that person, not specifically, but just in a theoretical.

Secretary CISNEROS. Our legislative priorities for this next year and our budget priorities will provide more money for outreach. That means people on the streets going to where the homeless people are, finding them. Sometimes it takes many conversations.

One of the most interesting things I have discovered over the last year is just how much attention has to be given to a homeless person to persuade them to come in. They don't want to come to the shelters. They are afraid of being robbed or beaten or what they believe is an environment in which they might be vulnerable to a disease.



So it is a very difficult sell. I have had caseworkers tell me, you can try 41 times, and on the fortieth time something clicks. It is a cold night, they are hungry, something, but you just have to try those 41 times before you get there. So outreach is a big part of what we will do.

We will also focus this year on using vouchers, 15,000 vouchers, in order to make vouchers available for homeless families in particular, so we can get them into permanent housing.

This is going to be different than we have ever done before. We have never used the Voucher Program for homeless persons. It will engage the housing authorities because the vouchers go to the housing authorities, but we are going to require them to engage with nonprofit organizations because they have experience with providing services to the homeless. We don't believe the public housing authorities have the expertise to deal with the homeless the way that nonprofit housing providers do. So that is another element of what we will do.

My answer to you, as specific as I can be, would be that we hope there will be housing providers in place in your city, if not in your district, who will be part of this endeavor of reaching out to bringing in, providing the drug treatment, mental health counseling, and eventually permanent housing for homeless persons.

Mr. GUTIERREZ. So, Mr. Secretary, the public housing authority will have an amount of vouchers, a certain amount of these 15,000 vouchers, and then they will work with community-based organizations, social services, which would in turn be the ones who would actually—

Secretary CISNEROS. Place people.

Mr. GUTIERREZ. Excuse my ignorance, Mr. Secretary, maybe you can help me, because as I was going through I just had an idea, just something that concerns me. Back in the 1980's, early 1980's in my district, there were many community-based projects with section 8 certificates attached to them, and they were project-based, and I can't remember, but they had a lifespan attached to them.

Secretary CISNEROS. Fifteen years?

Mr. GUTIERREZ. Fifteen years. We have got another couple of years, some of those will be 15 years old. What are we doing about those situations?

Secretary CISNEROS. The budget that I presented earlier, in the outyears prepares for the expiration of those contracts and attempts both in outlay terms and authority terms to even out what otherwise will be the dramatic peaks of renewals that come upon us.

But that is related to the problem that the chairman asked about a moment ago, that we need a solution for, and that is, these units that finally become our property, and we have no way to sell them back to the private sector because they expect to have the vouchers attached to them before they will buy them back, and the way the law reads right now, we either cannot sell them because we don't have the vouchers to attach, or we end up holding them, and we are a poor landlord. The Department is not designed to be a landlord.

So it is a very complex set of problems that this legislation that we are asking for helps us work through. But the longer term issue

is to even out our outlay future so we don't end up with dramatic peaks at the renewal years. We do have a large number of programs coming up for renewal—a number of contracts coming up for renewal.

Mr. GUTIERREZ. In some particular instances that I know of, Mr. Secretary, housing units are actually going to be worth a lot more money 10 years later because of the increase in property values in the very neighborhoods that they were built in. And my time has expired. So we will talk some more about it later.

Chairman GONZALEZ. The time of the gentleman has expired.

Mrs. Roukema.

Mrs. ROUKEMA. Thank you, Mr. Chairman.

I do appreciate what you have said on the multifamily property disposition. As you know, the chairman and I are dedicated with you to that.

I want to also concur with what my colleague, Mr. Bereuter, said, that he used the psychiatric terminology, schizophrenic. I won't use that. As the wife of a psychiatrist, I will avoid the schizophrenic, but I will say that your programs seem to be working against each other in terms of the relationship of public housing, whether it be modernization programs—we will leave new construction programs aside. I have heard what you said on the pipeline, but there are reasons why that pipeline is there and I think no matter which way you cut it, you are robbing Peter to pay Pauline, Mr. Chairman. The Pauline I learned was politically correct in the Education and Labor Committee 2 weeks ago. In any case, whether it is Peter and Paul or Pauline, we know that—and I understand your problem with respect to your budget restrictions, but there are problems here.

Now, let me go back, again, to the homeless question, because that is a great concern of mine, and I don't like throwing money at problems unless we have carefully thought them through, and the consequences of them.

How, Mr. Secretary, based on what analysis of the nature of the homeless problems, have you made these recommendations? By that I mean, what do you think is feeding the homeless problem? Is it lack of housing or is it alcohol, drug and mental illness problems?

Because I read it quite differently, I think, from the basic premise of your program analysis.

Secretary CISNEROS. I think it is all of those things, and I am not trying to duck the question or straddle the fence. It is poor people who are evicted from places and don't have a place to live. It is people—

Mrs. ROUKEMA. Has that percentage been growing? I have seen no certifiable data or analysis of that component of the problem, and we all understand that there is that component, particularly with women, single heads of households and children. But I have seen no data on that component of the problem.

Secretary CISNEROS. I have seen data that suggests that that component of the problem continues to grow, and I will get you that information.

Mrs. ROUKEMA. I would like that information.

[The information referred to can be found in the appendix.]



Secretary CISNEROS. The second component is people who are released from mental institutions and treatment facilities, and that number is also growing. In fact, I have just seen some analysis that suggests that number may grow dramatically in the next several years because of the problems State budgets are having. They are either straightlining or declining their funding for mental illness treatment. So that is a significant concern.

And then perhaps one of the largest of recent years is the number of people who go to homelessness because of drug-related problems, because their families cannot take their drug problem anymore, because they have worn out their welcome, because they rob from family members, because they cannot live in a setting with other family members with a drug habit, and they end up on the streets.

So you put that combination together—economics, drugs, mental treatment inadequacies—and it is a potent combination.

Mrs. ROUKEMA. Let me make an aside and then get back to the specifics of your program. I have been saying for more years than the chairman wants to remember, and I have gotten nowhere with it, only now have we come to understand the nature of the problem, that the mentally ill should not be treated as a housing problem, nor should it be treated solely as a Federal problem, because, and you have alluded to this, because there are Governors out there and State legislators that are closing the mental hospitals, taking the savings, and at that time, not as much now, but at that time they were actually using those monies to give tax rebates back, make heroes out of themselves at home.

That is one of the reasons I resisted certain of the homelessness, because we were picking it up not only as a housing problem, but we were picking up the costs at the Federal level, and I resisted that.

I would hope, in the program as you outlined it, and you only very broadly outlined it to my colleague from Chicago, that there is going to be some obligation for this proposal for the locals and the States to pick up the funding.

I am going to draw the line, and I think the mental health advocates should do it with me, because they are not servicing their clientele by permitting this disgrace to continue. We treat these people under some false sense of civil liberties, worse than animals, on the street, and if they were animals the ASPCA would not let us get away with it.

Do you want to comment on that?

Secretary CISNEROS. Yes, ma'am, I would. First, let me say that I will get you the data to support the points that I have just made, but it is available, and as soon as we publish the national homeless plan in a couple of weeks, which has now been going through clearance at the White House, I will get that to you, and it has much of this supporting information.

Second, the programs that we are talking about for this next year do include a way in which we ask something of locals, of local government and State government, which is matching programs. We have so much demand that we can afford to put a premium on those who will match and therefore show local capacity. It is a way to show commitment on the part of the local areas.

I would ask you to personally, perhaps, if you have the time, visit three institutions that I saw in New York last week, which this subcommittee helped make possible, helped fund, out of the innovative homeless money that you approved last year. We——

Mrs. ROUKEMA. Is that Shelter Plus?

Secretary CISNEROS. No, the innovative homeless grants, the \$100 million you authorized last fall for us, so we could start with the DC initiative, you remember that, and you required that 75 percent of it be used on these big city initiatives and 25 percent of it be put up competitively for particularly innovative programs.

And we did that, trying to put in place programs for this winter, so that people could be dealt with who were literally dying on the streets in the cold of this last winter.

The Bridge in downtown New York, assisted by a group called Goddard, whose purpose is outreach, and another one called Grand Central, whose purpose is outreach, but The Bridge—as you said, the wife of a psychiatrist would particularly appreciate this because its whole purpose is housing persons who have mental disabilities.

And it really drives home the point, your point. It is not just a housing problem. It is a problem where people need medication, they need counseling. But it also has a housing component, because you can't treat them, you can't stabilize their lives unless they have a place to live. They cannot work. These are people who are like children. I saw a grown man, a huge man with a beard, kind, gentle eyes, no one to take care of him, but he had a place to live and he was stabilizing his life because he had his medicine.

Mrs. ROUKEMA. And you cannot make a meaningful impact on that population with vouchers. You absolutely cannot.

Chairman GONZALEZ. The time of the gentlelady has expired.

Mr. Rush.

Mr. RUSH. Thank you, Mr. Chairman.

Mr. Secretary, I too join in the remarks of my colleagues in congratulating you on an outstanding job, and also commenting on your accessibility to all the Members of Congress. And, certainly, I want to commend you on your leadership in the area of the urban communities and your outstanding work on behalf of citizens of the city of Chicago, particularly those who reside in public housing in the city of Chicago, where you know we have an enormous problem and efforts have been engaged upon in terms of trying to help relieve some of the misery that residents of Chicago public housing are living in today as we speak.

Mr. Secretary, I have one question, and it is regarding some information that I am aware of that is occurring in the administration, and it is related to the area of welfare reform and the question of how to pay for welfare reform. And I guess as I think about it, it is not really a question, it is more of a comment, and maybe you might have some reaction.

I understand there is some discussion about using the Section 8 Program and other supplemental income programs for housing in an attempt to use that as a part of income of the recipients, and therefore reduce AFDC contributions to families, which will have the effect of getting people into what might be better housing but



starving them in those particular units. And it is part of a strategy to tax the poor in order to pay for welfare reform.

I just want to let you know that this is one Member of Congress if that becomes a part of the efforts to pay for welfare reform, that I will do all that I can in order to defeat that particular measure, and fight vigorously against that particular measure, and that concept in general, putting this on the backs of the least in our Nation, the people who have the least resources in trying to make them pay for welfare reform.

I just think that is totally atrocious, and that it is something that certainly we should not be engaging in. I just wanted to let you know and make that comment to you. I am not sure what your position would be or is on that. I am not asking you to take a position. I think that is really astounding, that there is even discussion in that particular area.

Secretary CISNEROS. Congressman, let me respond, if I may. First, one of the trademarks of this administration and the White House is that it asks its administrative team to think of all of the possible options to fund particular programs, to act on priorities, and so forth. And this was a leaked document of considerations by a task force that was looking at every possible, even extreme idea. But it can only be characterized that way.

I have had a conversation at the White House about it this week, and I was assured by the people who are working in organizing and directing the Welfare Task Force that this was someone's proposal that made it onto a piece of paper, and when it got into the hands of a reporter they obviously went for the most outlandish proposal on the paper, and this is the one that made the story. That is point number one.

Second, we have had no principal level or cabinet level discussion of welfare reform, but that is about to come, and when it does I will take your comments to that meeting, and make clear that either taxing the benefits of poor people or counting the benefits as income for purposes of calculation would be in the eyes of at least you and the members of this subcommittee, as I read them, counterproductive. And I will be happy to take that message in strong terms.

Chairman GONZALEZ. The time of the gentleman has expired.

Ms. ROYBAL-ALLARD. Mr. Chairman, I am sorry, could I have unanimous consent to just make a very brief statement, because I do have to leave.

Chairman GONZALEZ. Is there any objection to the gentlelady's request?

If not, the gentlelady is recognized.

Ms. ROYBAL-ALLARD. I apologize and thank the subcommittee.

I just wanted to take this opportunity to commend Secretary Cisneros for the outstanding job that he has done in helping the victims of the earthquake in Los Angeles. It is due to your personal commitment in being there for weeks, working along with the members of your agency, that you have processed in record numbers and have given the people of Los Angeles who are the victims of the earthquake real hope that they will be able to get their lives together again. I thank you for that.

Secretary CISNEROS. Thank you very much, Ms. Roybal-Allard. I saw you the first night that I was there, Monday night, that the earthquake occurred. I saw Congresswoman Waters and others during those days as well.

Let me say I will be out there again on Saturday because we are organizing a very large meeting, Mr. Chairman, for apartment owners whose apartments have been damaged, and therefore have no financial capability to bring the housing stock back. And Nic Retsinas of FHA has joined the Office of the Comptroller of the Currency, the Federal Home Loan Bank Board, the city of Los Angeles, and others in putting together programs which heretofore have not been available to those business people who are apartment owners. They are available to business people but not people whose business happens to be creating housing, so we can get the housing stock repaired.

There were literally 30,000 units of housing, either apartments or single-family homes, which were rendered uninhabitable by this earthquake—30,000. That is a fair-sized American city. If you say that you have 3 people on the average living in each one, that is a city of almost 100,000 people. So it is a big job, and it continues. But thank you so much for your comments.

Chairman GONZALEZ. I have been advocating that kind of approach on a national level by giving that kind of emergency priority basis for some time. But that is another story.

Mr. Baker.

Mr. BAKER. Thank you, Mr. Chairman.

Thank you, Mr. Secretary. I just want to return to your written comment provided to the subcommittee, specifically in the area of 8(a) multifamily property disposition issues. As you know, over the past few months we have conversed about the proper direction to go, and regrettably, because of the lack of congressional action, no plan has been adopted that really transfers any additional programmatic authority to the Secretary.

I have been supportive, for the record, under H.R. 2914, of giving very broad authority to the Secretary to use business judgment to work our way through a significant problem.

In your written testimony, you reference inventory of 31,000 plus units at 184 projects, which I am sure is accurate, but when you look at the number of units that are in the foreclosure proceeding, I am very much concerned that since the GAO report of May 1993, which shows 69,000 units technically in the mill or in our possession, the number now closer approximates 83,000 nationally, and a huge growing obligation for the Treasury.

What bothers me is that number does not include FHA-insured, multifamily mortgages or HUD-held mortgages, that is an additional liability, potentially, for us, some 2,400 mortgages that may have been identified as under some stage of duress, creating a huge potential liability.

What we do about it is now the issue, and in our discussions there was some consideration of disposal to private market without subsidy, managing some that continue to make a profit, whatever the mechanism might be that would make sense.

However, in looking at a comment given to me with regard to the administration's direction for disposition process, any section 8 as-



sistance required by law would be provided without regard to funding limitations in appropriations legislation.

Basically, disposal of section 8 distressed properties becomes an entitlement program of great magnitude. In the insurance fund against future loss, I am to understand we reserved approximately \$11.8 billion using the historical disposal cost of \$3.9 million per property for the total of 441 properties now in our possession or soon to be. That is a hit of about \$17.6 billion in direct cost against a fund which has reserved only \$11 billion.

I guess what I am concerned about is the legislation that I am supportive of, H.R. 2914, which gives broad authority, now may not be so well advised from my view if in fact we are going to suggest the program be run to dispose of properties without regard of cost, taking it off budget, and increasing our debt responsibilities dramatically when we really don't quite know yet at the moment what our total obligations might be if the continuing inventory continues to grow.

I know I have a 5-minute limit and I have got one other question.

Shifting completely to a different perspective, to give you just a little historical view from my side of the fence, because I would have no reason to believe you would be familiar with it, from May 1990 with the Treasury's report on the GSEs to the April 1990 report, in 1992 legislation that I introduced with Mr. Neal, we have had a continuing saga of activity on efforts to reform GSEs, to a reauthorization in October before you which required GAO, CBO, and HUD to report within 6 months on the suggested modernization of the Federal Home Loan Bank System. All reports are now available except for that of HUD, and I am very concerned because the Federal Home Loan Bank System is the credit window of liquidity for most first time home buyers to get into the home marketplace.

In the coming housing reauthorization, I am anxious to see whether or not the administration will propose any reform. Some have suggested we should wait until the studies are concluded.

I would certainly hope the study or recommendations from the study would be made available prior to the consideration of the housing reauthorization. I think it is a significant problem which has been ignored too long. I look forward to some direction from the agency in the coming weeks.

Thank you, Mr. Secretary. I did that rather quickly because my time limits are such.

Secretary CISNEROS. No problem. Let me say, I think we are in a new era with respect to our relationship with the Federal Home Loan Bank System. Typically, the Department has assigned someone to serve on the Federal Home Loan Bank Board, but only intermittently, with not a lot of level of attention, but I have been fortunate to have a talent like Nic Retsinas, who has emerged as the Chairman of that Board.

As a matter of fact, some of what he is going to be able to do in Los Angeles this weekend to make housing funds available, is because the Federal Home Loan Bank of San Francisco has a great incentive to work with us closely.

So I will get him to come and see you and speak to the particular question of the report that you mentioned. And we will just make it a point to have Nic call on you. I think he either owes you a visit or that visit has already occurred, Mrs. Roukema.

On the earlier question, we are recommending shifting the multi-family disposition to the mandatory side of the Federal budget. That is because Congress has imposed restrictions on our operations. It is a Federal mandate that we deal with. We can't dispose of these properties without attaching some long-term section 8 subsidies.

So the key is to reform the Multi-family Program, lessen those restrictions, and then fund disposition as a mandatory expenditure. That is the plan as we have it laid out.

We will not dispose without consideration of cost, because I will guarantee you, Nic Retsinas looks at every transaction and looks at what it means to the funds, and he is not going to dispose without considering the cost implications for the fund.

Mr. BAKER. I know I am out of time, but I do believe there are some other alternatives that would not be quite so damaging to our budgetary consequence. I have grave reservations about the mandatory obligation.

Secretary CISNEROS. Again, when Nic Retsinas calls on you, you might want to pursue this subject with him.

Mr. BAKER. Thank you.

Chairman GONZALEZ. Mr. Barrett.

Mr. BARRETT. Thank you, Mr. Chairman.

Mr. Secretary, let me commend you on the fine job you are doing. It is safe to say you are the most popular Texan in Wisconsin. People in Wisconsin like you very much.

I am concerned that HUD in all of its activities not be directly or indirectly contributing to declining property values in our central cities, specifically in the property disposition area. There are several concerns arising out of what is going on in Milwaukee right now that I want to discuss with you.

The first is a problem I want to bring to your attention; there have been several problems raised, and this is one of the most egregious. There were several reported instances, apparently, where HUD knew that its property that it was preparing to sell was subject or at least very likely to be razed as soon as the local building inspectors went to the property. There was one instance where the internal memo said we should sell this property quickly because as soon as the inspectors see it they are going to raze it. Unfortunately, a 23-year-old man bought the property and the city then came through, inspected it, and put a raze order in. I don't want to see that happen anywhere in the country. I think there should be a message that comes from your office, to make sure that that does not happen again.

The second concern is sort of a commonsense suggestion that I would make. I support the program of selling the homes on an as-is basis, but I think it also would be sensible for the program to inform the people of the defects that the agency knows about.

Again, I understand where you have to be careful so that you are not guaranteeing that there are no other defects, but I think just as private purchasers of a private piece of property know what the



defects are, even though it is an as-is sale, I think the Federal Government can be a nice person and also let the buyers know that.

Secretary CISNEROS. Mr. Barrett, thank you very much. I am glad to know of the case you have described, because I have tried to instruct our field offices to treat people decently, and it is one of the most frustrating things. I have encountered this in Chicago, and in Cleveland, recently, where we have set up a program where we dispose of single-family houses, but instead of putting them on the auction block as HUD houses, we make them available to non-profit organizations at a 30-percent discount, so they can purchase them, rehabilitate them, and bring people they know into those houses. As a result, we have revitalized the neighborhood and we provide homeownership for someone.

But I have a terrible time conveying this to big organizations, 13,000 people in the field office; that is, carry this out in the way we instruct, and they frequently appraise them at a price that is too high so that the organizations can't really get their hands on them, or don't calculate the amount of rehabilitation that is needed.

What we try to do is appraise them, then discount the amount of rehabilitation that would be needed, sell them for the subtraction of that price, but either they sell them too high or underestimate what the rehabilitations are, and then the people buy them or the organizations don't buy them and we end up in continuing to blight the neighborhood.

I don't know why we should have those kinds of problems that much. It is a frustration. But I was just in Chicago dealing with the community organization on this, in Cleveland dealing with a community organization on it, and it is a generic problem I am trying to address.

You can direct me to the gentleman who got treated so badly in Milwaukee. We will try to make that right.

Mr. BARRETT. You were talking about the appraisal process; it is sort of a tightrope. When the city or community organizations want to purchase property, they generally complain that the appraisal is too high. When the sales are in the central city, you get criticism that the appraisals are too low because the argument is that you are blighting the neighborhood.

So my suggestion is to do everything you can to make sure that the properties are going to homeowners, people who are going to live in the homes and have a stake there rather than letting an investor come in.

Secretary CISNEROS. See, that is the purpose of going with the nonprofit, because if you go through an auction you get speculators who come and buy the houses and then rent them with no intention of improving them, but if you go to a nonprofit and they get a 30-percent discount, that is an organization that has an interest, like the neighborhood housing services that operate in most cities in revitalizing the neighborhood in making the house available for homeownership. It is a wonderful program.

We just need to get bureaucrats who have worked in a particular way to see we are doing something different and lighten up and help people instead of just following bureaucratic rules.

Mr. BARRETT. Finally, I would like to work aggressively with your office to ensure that the people in Milwaukee can take advantage of the Revitalization Program, get an exception to the program so that—

Secretary CISNEROS. Yes, we can do that.

Mr. BARRETT. We can get that 30 percent.

Secretary CISNEROS. We will have somebody contact your office this afternoon.

Mr. BARRETT. Thank you very much.

Chairman GONZALEZ. Mr. Knollenberg.

Mr. KNOLLENBERG. Mr. Chairman, thank you very kindly.

Mr. Secretary, thank you for being on hand this morning. I am sure you may be aware that I have tended to focus on one aspect of the Federal housing policy. It has to do with rent reform. I know you have been an encourager of that kind of thing and in fact have an inclusion in your own offering.

Last March I introduced H.R. 2957, which is the Rent Reform and Empowerment Act of 1993, that would provide public housing authorities with a menu of options that they could choose to use, and it is designed to remove the disincentives that, as you well know, keep welfare recipients in public housing and from seeking employment.

Current public housing policy tends to, in fact, punish those tenants who want to work, and you are well aware of that. I salute you for your interest and inclusion of what I think are necessary options that dwellers should have. I think those reforms are in the text of H.R. 3838, and I think Congress may be finally willing to work in regard to getting something accomplished there.

One quick question, you needn't expand too much on this, but in terms of the budgetary impact of these measures, and you mentioned, I think, that they would be budget neutral over time, very quickly, do you have any specifics?

I don't need a lot of this, but I would be interested because it is difficult, I found, to get any kind of solid numbers, and I was wondering if you had any.

Secretary CISNEROS. I can get you some solid numbers on it because there are some, but it is effectively budget neutral, because people today are discouraged from working, therefore, they are not working. Therefore, there is no 30 percent increase in rent applied because there is no increases in income coming from work, because it is effectively discouraged. So you can see that there is no effect.

Indeed, we believe that in the outyears there probably are budget gains if more families work, because although we don't allow automatic increases in income, there will over time be more persons who are working in public housing.

Mr. KNOLLENBERG. That is what I wanted to hear that essentially in time it is going to produce the other side. I think this body should hear that, because those are pluses that I think get tossed aside if they look at the CBO analysis initially.

Secretary CISNEROS. Let me say, Mr. Congressman, it is our hope that of the measures which have been proposed and carried over in the Senate bill, that this could be one of those that was acted on in conference, because frankly I have not encountered anyone who is opposed to it. The housing authority industry, administra-



tors, and leaders are for it. Residents are unanimously for it. Each time I go to a housing authority and I even ask about this to residents, there is just a buzz in the room automatically, because people recognize it.

And, frankly, it is one of those things that we have asked for that we could implement immediately. It takes a while to do regulations, we will expedite the regulations, but we could have this in place before the end of the year if we could get authority to do it earlier in the Congress. It is a home run for the subcommittee, it is a home run for housing authorities, it is a home run for HUD. We would like to get some assistance on this.

Mr. KNOLLENBERG. I know you have been to Detroit a couple of times and have established a relationship with the new mayor there. I have done the same, and in fact we made a tour just about 10 days ago on various projects in Detroit.

Another question I had in drafting your proposal, did you explore any other methods beyond those that you had incorporated—

Secretary CISNEROS. On this subject?

Mr. KNOLLENBERG. No, on eliminating any other disincentives for employment. This is a different question.

Secretary CISNEROS. Well, not disincentives so much as more positive measures. Let me describe what I mean.

I have concluded personally, just talking with housing authority folks, that one of the most important sources for income and work in public housing is working for the public housing authorities themselves. We have massive modernization funds. Folks ought to be able to benefit who live there from the work that comes through modernization.

Therefore, we are stressing a program called section 3, very important initiative, to allow persons to work in public housing and related construction work who are public housing residents. Similarly, Youthbuild, which targets young people who come from a public housing setting.

These are just a couple of very positive things that can make a difference in people's lives in public housing, that we are targeting that are of a more positive nature. I will continue to look for those things that are disincentives, but frankly this is one of the ones that is most obvious, that has a broad base of support immediately.

Mr. KNOLLENBERG. Would you have support for a demo-type project or a demo program for PHA authorities for the directors to experiment with and to in fact give them a little more of a challenge?

In my communication with these folks, they have told me they would like to see a little more freedom. And you can call it flexibility, but it is an attempt on their part to be able to manage some of those problems that they think they can do better, in fact, than what HUD apparently is.

Secretary CISNEROS. Yes, sir. Under the National Performance Review, we have a directive there to do precisely that and we are in constant discussion, including the organizations that are going to testify here today, NAHRO and others, public housing directors, Council of Large Public Housing Authorities. We are always working with them to find where we can make their life a little easier and help them serve the residents and achieve the Congress' goals.

Mr. KNOLLENBERG. Thank you. My time has expired.

Chairman GONZALEZ. Ms. Waters.

Ms. WATERS. Thank you very much, Mr. Chairman.

I would like to join with Congresswoman Roybal-Allard and others who have commended you, Mr. Secretary, on the fine job that you are doing in general, but specifically for the Los Angeles area, following the earthquake. You were absolutely magnificent. The team that worked with you that came from the Federal Government were absolutely magnificent. And a lot of it, I think, has to do with the fact that you and Mr. Pena and Mr. Wing and others come with so much experience, and you were able to bring that experience to bear, and I think, perhaps you have created for all an example of what you do in a disaster.

And I wanted to thank you for the time and the attention that you put into Los Angeles, and the wonderful results that we are getting. You certainly have done a great job.

I would like to quickly go down the 1995 reauthorization proposals and kind of give you some of my take on them. Reducing homelessness is an important priority. I want us to be careful, however, how we do this.

I think there is a role for the housing authorities to play, but I am worried about compaction and density in housing, public housing developments. We did some experimental things, made some efforts in Los Angeles. Mr. Shuldiner is very familiar with them. We moved on some portables and other kinds of things to accommodate the homeless.

I would like for you to really reevaluate or evaluate very carefully how you include housing projects in this effort to deal with homelessness, and to certainly take a look at those creative programs that would bring in perhaps nonprofits to operate and manage kind of SROs, because many of our homeless, whether they have mental or emotional problems are single individuals, who really are not looking for homes and apartments; they really are looking for a safe place to stay without a lot of effort where perhaps they could get a couple of meals a day, and it is all managed by somebody else, and they have a nice, clean room and bathroom facilities, and so forth.

So I really wish you would look very closely at that and see if there are any creative proposals that you could support.

On turning around public housing, there are a lot of people who are worried that there are some cuts being proposed for public housing modernization, I suppose. I am not so worried because I remember when you came there was money in the pipeline, and I don't know how that is moving, but I have confidence that you understand what those needs are and I understand you have targeted those housing projects that are worst off, and you are going to set some priorities and deal with the problem. And I am confident that you will, and I have been called by the press about this, and I have given to you my vote of confidence in handling that.

Expanding housing production and preserving the supply of affordable housing. I have a little bit different take on this. I am really interested in rehabilitation, and maintenance of existing housing and multifamily units that are out there. Communities are going down and in great disrepair because we put them up and



then we kind of forget about what we should be doing to help maintain them. And so I am really interested in rehab, and I am concerned that perhaps we are not looking at various areas of our country in different ways.

There are some communities where you have vacancy rates, but now that our low-income housing development people have learned how to do this, they still want to put them up. And I think we ought to take a very close look at those areas where we have got high vacancy rates and really get the kind of information that will help us direct where those resources should be going. Again, I am concerned about compaction and density, and I want us to spread out our low-income housing units.

I like the idea of, as you know, of section 108, and whatever the combination is of CDBG or whatever resources we are going to use in providing technical assistance, I am very much for that. After you build all the low-income housing, people have got to have services. They have got to have businesses. They have got to be able to shop in their communities. And so the fact that you are giving some attention to that pleases me greatly.

And you know in Los Angeles, we have pointed out some areas to you, and you have been there, you have looked at it. I think you understand this very well. And I support you 100 percent in trying to move section 108 funds into cities so that they can build the support for the communities so that the goods and the services will be there, and some economic development creation.

Let me just mention in your public housing—if I may, Mr. Chairman, a few more seconds here—that I think we can create some commerce. The marketplace that we tried under Mr. Shuldiner in south central Los Angeles can work. We have people, may not be able to find out, but they have some desire to sell some items. The marketplace is a wonderful concept for low-income people who decide that they can learn how to buy something wholesale and sell it retail.

Commerce, for the most part, is discouraged, because I mean, you don't have all of the guidelines by which to direct, and you can't do any old thing you want to do. I wish you would look at those guidelines and encourage more some idea of commerce.

I would also say to you, and this is my concern about compassion and crime, that I think we should look at how we thin out some of our places and we use them for service centers, some space. We in Los Angeles created an employment program under the Community bill; the housing authority gave us space. It has served us well. We can do it better with a little help.

We also created an alternative school, and Imperial Courts, because we had such a high rate of dropouts, and kids who were not going to school and gang problems. We got the L.A. Unified School District and L.A. Housing Authority to create that alternative school. Those kinds of ideas I think need some support.

I like your idea of the 18 months for allowing people to stay in them without raising rents. On the—

Chairman GONZALEZ. The time of the gentlelady has once again expired.

Ms. WATERS. Unanimous consent for 1 minute?

Chairman GONZALEZ. Any objection?

Hearing none, the gentlelady can continue.

Ms. WATERS. Thank you very much.

Let me just say that the rent reduction idea, incentives for beautification and upkeep, I don't know what you could do. It may be that you can talk about just a teeny bit of rent reduction for the planting of flowers and the upkeep of units, and create some competitions within the housing authorities in order to get people more involved in upkeep.

Now, there are a lot of young men in these housing authorities who are not on the lease. And everybody pretends that they don't live there. They are not on the lease because people don't want to pay a little extra money or more money that they can't afford in order to have that 18- or that 19-year-old or that 20-year-old on the lease.

I would like us to look at our policies. They need work. And this thing that we pushed in Los Angeles about creating opportunities for them to work on modernization, is real important. And we need to recognize that they really do live there. They are there. And we ought to include them in opportunities for work and we should not say we don't think are you a resident if you are not on the lease.

With that, thank you very much, Mr. Chairman, for the time.

Chairman GONZALEZ. The time of the gentlelady has once again expired.

Mr. Bachus.

Secretary CISNEROS. Very quickly, if I may, I would like to just cover some quick responses to the Congresswoman's statements.

Chairman GONZALEZ. OK, if you can within 30 seconds.

Secretary CISNEROS. Very good, sir.

Chairman GONZALEZ. And if not, you can answer on the record.

Secretary CISNEROS. On homelessness, I, too, am a fan of SROs, and there are many cases, and we will look at innovative approaches for that. On public housing, we are attempting to move the modernization funds, and linking it to jobs, as you say. I visited Imperial Courts and saw the young gang members there who were promised work as a result of the Modernization Program. It has not happened; we are pressing to make that occur.

On production, I take your points on rehabilitation to heart. Well stated on preservation. And I appreciate your support on the Section 108 Program. As I said earlier before you had arrived, that you are acknowledged as the person who has championed the 108 initiative. And what we are proposing to do now is to take recaptured UDAG funds, old UDAG funds, and further write down the interest rates so that people can take advantage of that 108 money and put it to greater effect. So I just—

Ms. WATERS. Thank you very much.

Chairman GONZALEZ. I wanted to say that we have two more witnesses and they are both very important. So we must move along.

Mr. Bachus.

Mr. BACHUS. Thank you, Mr. Chairman.

Mr. Secretary, I think we are all very concerned about the homeless. And my concern for the homeless is that I think traditionally in this country the commonsense, practical, long-term solution to homelessness has been for the government to encourage in every



way it could, homeownership. And I want to applaud you for what you said earlier when you were responding to Mr. Bereuter when you said, not just homeownership, not just housing, it is a way for people to get equity and wealth.

You know, there is a saying that a man, and I guess now you would have to change it, a man or a woman's home is their castle. And I think the government has had a long-term policy to encourage everyone to own that castle. And I hope that the HUD's policy is to encourage homeownership as the best solution to homelessness.

With that in mind, I read an article back on February 17 in *The New York Times*, that really alarms me. And almost I wonder if it is some indication that the U.S. Government is abandoning its policy to encourage homeownership. And I want to introduce that article into the record. And what that article says, among other things, and there is also an expression that, "Say it is not so, Sam." I want to say to you, say it is not so, Mr. Secretary, that what I read in the draft report on homelessness is that that report suggests that the government is misdirecting its resources by allowing homeowners to deduct the interest on their home mortgages.

[The article referred to can be found in the appendix.]

I can't believe that I read that in a newspaper in this country. Can you explain how that ever got even in draft form?

Secretary CISNEROS. Congressman, I can say it is not so, as you asked me to. Earlier I said that sometimes documents get out with every idea that somebody could possibly consider as a way to fund something listed. This one, I saw the draft report, and it did not speak to addressing the larger homeownership deduction.

As a matter of fact, if you will look at that article, there are about three paragraphs there where the—it does not attribute, it is not in quotation marks, it just says the author of the article's interpretation of what the administration should be doing, it goes off into a little tangent about the Homeownership Deduction Program. Let me say for the record, the President of the United States was asked as a candidate one day on the campaign trail whether he favored any reduction or removal of the homeownership deduction and he said absolutely not.

He was very upset about that piece that you have there, because it is about a leaked document. But quite apart from the issue of the leaking, he was very concerned, very angry on the substance of it, that it would put him in the position of even considering something he had said on the campaign trail he would not ever support as President, which is removal of homeownership deduction. So I can tell you straight, directly, unequivocally, that is not an issue under consideration.

Mr. BACHUS. Well, thank you. I think every middle-class American is breathing easier.

I want to ask you another question. And this is about earthquake relief. In the earthquake supplemental, you have 15,000 section 8 vouchers to assist displaced renters.

Secretary CISNEROS. Actually, it will be more than that.

Mr. BACHUS. That is right? That is for a 18-month period; is it not?

Secretary CISNEROS. Correct.

Mr. BACHUS. What happens after that 18 months?

Secretary CISNEROS. After the 18 months, people who were living in the private marketplace before, these are not people who were on assistance, they were living in the private marketplace, have to go back and find their own housing because the government is not in a position to extend beyond the 18 months.

Now, I have received some criticism, and I think it is fair, that 18 months possibly was too long a time period. But we are now about 18 months plus since Hurricane Andrew in Florida, and I have been back there as recently as last week, and there are a whole lot of people whose jobs have not come back in that time-frame and who are not yet stabilized in their houses. It just takes a while. These are not things that can be done overnight.

And when you see what happened in Los Angeles, businesses were lost, a VA hospital was closed, a university was closed, it is going to be a while before jobs come back. So I think I can defend the 18 months, but we have made clear to everyone involved, residents, landlords, these cannot be extended beyond 18 months.

Mr. BACHUS. Thank you, Mr. Secretary.

Chairman GONZALEZ. Mr. Watt.

Mr. WATT. Thank you, Mr. Chairman.

I just have two very brief points. First of all, I want to compliment the Secretary on the quality of the presentation you made this morning to the subcommittee. The one problem I am having is, since your charts we do not have with us—

Secretary CISNEROS. I will get those to you.

Mr. WATT. To pair up with your testimony, the good thing about having testimony is you can take it back, read it and study it and it is very helpful sometimes, and I would like to request the benefit of those charts.

Secretary CISNEROS. Congressman, I decided this morning as I left the office that this might be interesting to the subcommittee and so we brought the charts and I will make sure we get a hard copy to you by this afternoon.

[The charts referred to can be found in the appendix.]

Mr. WATT. Thank you very much.

Second, I am trying not to be concerned about, as Ms. Waters has indicated, about the cuts in modernization in public housing funding. There is one aspect of it that is a little troubling, though, which I would ask you to comment on. And that is—I think I am beginning to understand the mentality of this congressional body that we serve in. Although I am beginning to worry about myself for even suggesting that I might do that.

As I understand it, the reason you are able to make these cuts short term is that there is money in the pipeline that has not been used, that has been there and—but longer term is the concern that I have. If you make a cut in a budget around this place, it seems to me that the mentality of the Congress is that that establishes something henceforth now and forever. And so what I am concerned about is that you are driving your—you may not have a short-term problem the next 1, 2, 3 years, but we may be creating a problem 3, 4, 5 years out. And I would ask you to comment on that and primarily for the purpose of getting into the record so that



when the time comes, we can go back in 3 years from now and say, look, this was not to be a permanent cut in public housing funding.

Secretary CISNEROS. Yes, sir.

Well, sir, your analysis is correct. If we were not to make this up in future years, then in 3 years you would see an effect in less money available for public housing modernization as the pipeline that now exists is used. But as I said, this is a pretty basic priorities proposition. We had a budget to work within, and at the time it was not the increase that I showed you. I showed you how we increased \$1 billion in authority and \$2 billion in outlays. It was not at that time an increase.

We are working with very tight numbers. We subsequently went back and appealed certain things, and that is how we got the increases. We appealed the homeless funds and we appealed the modernization and didn't get all—we got some back but not all that we wanted. And we appealed some of the others. But in order to get that effect on homelessness and some of the other things that we have done, it had to come from somewhere.

Now, one option was to take it from the Community Development Block Grant, and there was a pretty good rumor around town that there was going to be \$1 billion cut in Community Development Block Grant funds. Well, we decided that we could not do that, it was not a way to do that. So we had to look at places where even though it hurts, we can make it up. And even though we don't want to do it there, if you have to do it somewhere, here is a place where there is a pipeline that you can work with. So there is no visible effect for about 3 years.

Literally, what you will see over the next 2 years, is increases in spending for modernization, because we are flushing the pipeline and working with housing authorities to do it. So you are going to see dramatic increases in modernization even though this year's money is less.

But you are correct, if we don't fix it in the outyears, and I believe we have to and we will build that into future budgets, and I say that for the record, then we will not be able to run at the rate that we need to, which is about \$3 billion a year to keep pace with the modernization needs. We have \$2.8 billion in this one, we are \$200 million off.

Mr. WATT. Thank you, Mr. Chairman.

Chairman GONZALEZ. Thank you.

Mr. Frank.

Mr. FRANK. Mr. Secretary, in fact, let me compliment you on your accomplishments. You have done more today than most Secretaries have.

Couple of brief points. One, in terms of the shelters, we specifically authorized a few years ago—

Secretary CISNEROS. In terms of the what, sir?

Mr. FRANK. The shelters for the homeless. Because I guess one of the problems people have is they don't want to go in there because they might get robbed. Shame on us that we maintain with our money places where vulnerable people are afraid that they will be robbed because we don't protect them.

We should put cops in the shelters. We have authorized that. We are going to be dealing at the Judiciary Committee with more cops

on the streets, and I urge you to make that one of the conditions people have to have to make the shelters safe. Cities have police. There isn't any reason why the people who live in those cities who are forced to take shelter are less deserving of police protection than people elsewhere.

We can make funds available, and one—I mean part of it, some of the people out in the streets have an irrational fear of coming in, there is some mental illness, but there is some perfectly rational reasons not to go into the shelters, and they are our fault. We have given authorization for this in the past, there ought to be a provision.

I am not talking about anything less than full police officers. I think the people who live there are as entitled to police protection as elsewhere. We are going to be increasing police protection, and I think that is essential.

Second, on regulations. I was impressed when you said that with regard to the rent reform, if we passed it, you would get the regulation out before the end of the year, confirming my view that when you really want to do a regulation, you can do them quicker than you usually do them. I understand you inherited the situation, but I hope that we are not going to have a situation where the regulations you like come out quicker than some of the ones that people don't like.

We will be authorizing later this year—and I have talked in the past about putting specific deadlines on particular programs where they go into effect, regulations or not. I don't know whether I will do that again this year. It will depend on the pace.

And I appreciate what you have said about trying to deal with mixed housing. But you say you can do rent reform before the end of this year, we haven't passed it yet. Mixed housing was passed in 1992. Now, you weren't in office then, so that is transitional, but you have got to do quicker on the regulations.

Finally, I hope and I understand, when you are testifying and people ask you questions and most people like to be agreeable face to face, but I would not want you to apologize for people thinking that you were a Department for the poor people. It seems to me they are entitled to one in the whole government. They don't get much out of most of them. And I, frankly, if we didn't care about poor people, we wouldn't need a HUD, I don't think. People would leave that to the Federal Government. A lot of things that help homeownership, the homeownership deduction, that is over in IRS anyway, so I think you ought to be primarily the agency for poor people, because they are the ones who are most in need of housing.

And while I think promoting homeownership is good, I disagree with the suggestion of the gentleman from Alabama that it is even ideally the goal for everybody. Most poor people, most of their lives, will be renters. And a policy which fails to recognize that is going to condemn them to serious problems there.

There are parts of this country where by definition you couldn't be a poor person and own a home, if you own a home, you are not poor anymore. And I think that we have to remember the renters. And that leads me to my distress over the public housing budget.

I understand that you were given these constraints by OMB and I should just note one of the things that was in the budget the



President sent us that I intend to fight very vigorously in the Budget Committee is a decision to increase the budget authority for the Defense Department by \$2.7 billion over what it was in last year's budget resolution.

The Defense Department says they are going to give a pay raise, so is everybody else. And people should understand that the loss that you acknowledge, we could have used to keep public housing modernization on an even keel, went to the Defense Department from last year's assumptions. But that was in the President's budget, it is not our budget, and I don't intend to vote for a budget that does that. So I realize that these are problems you had to deal with. But I am still concerned.

I have asked some people, the Council of Large Public Housing Authorities to give me the figures—yes, there is a pipeline with modernization. But it is not an ever-increasing pipeline. It is a pipeline which is being drawn down very steadily and which you and your team are helping to draw down.

Now, they point out to me that traditionally there has been a 15-month gap between our voting modernization funds and your even being able to release them, so that there is going to always be that delay. They are getting somewhat unfairly blamed for delay. And they have given me the figures that are HUD's figures, from June 1992 or 1993, which show a very substantially reduced amount of holdover, as you go back, unobligated from 1988, virtually nothing.

From 1989, virtually nothing. Yes, there is the first significant unobligated funds in 1991, \$1 billion; 1992, \$2 billion. The problem, of course, is that particularly if you continue to make progress in speeding up the pipeline, we are going to run into trouble. And it is not just in 3 years, I am afraid. This is the problem. Because the spending levels 3 years from now are dictated by people's ability to make plans then and contracts now.

The problem is that people are now going to be told, no you can't draw up the plans, no, you didn't certainly sign the contracts. So even if we try to make it up later, we run into some real problems. And I am talking to people in the Appropriations Committee, I am less sanguine than some of my colleagues that we can afford that reduction in modernization, especially. And this finally seems to me the great irony, we are told we have to cut public housing modernization because we want to help the homeless.

In my experience, very few of the homeless are moving to Georgetown or Beverly Hills or such neighborhoods. A very substantial percentage of the homeless are going to be housed in public housing. And our ability to accommodate them, I think, depends on modernization. So I understand the bind you were put in and I realize that these do not represent your priorities in terms of overall funds, but I remain unconvinced about modernization.

And the other point I would ask, and then I will just ask you to respond if the chairman will give you a little time, you say that we will try to make this up. I guess what might help would be if we got some letters from the Budget Director or President that said when we go to this next year, they will not hold us to this baseline. We run by baselines here. And you are saying, well, we are going to have to make it up. But, in fact, we are going to run into the difficulty of next year being told if we just try to get back to where

we were this year, that is going to be considered a big increase. So not only do normal budget rules make it unlikely that we will be able to make this up, the fact that we took this cut is probably going to be used, inevitably going to be used as an argument for further cuts in the future.

And at the very least, to make that point, I would hope you would get some letters and some commitments and talk to the budget Chairs and the appropriations people. Because we are not even going to get back to neutral here without a heck of a fight.

Secretary CISNEROS. Mr. Chairman, if I may, a couple quick points.

The first, I share your concern about unimplemented statutes, regulations, and the pace of regulations. We have a project within the Department that we call precisely that, "unimplemented statutes." I asked about it on Monday afternoon in our staff meeting, I am due a report in a week, which I would be happy to share with you.

We are doing pretty well at moving the regulations through the Department. There have been some really controversial ones, like the immigration rule, like the one on mixed populations, which we are moving through and getting comment on and moving them out. I hope to, with the help of Nelson Diaz, the new general counsel, to move these faster and that is why I made the comment earlier that I think that if we were to get permission on the recent reform, we can get that rule out and meet all the time responsibilities that we have in order to have it by the end of the year.

But I, too, have a civics problem with a Department that took it upon itself to hold up, by not issuing regulations, congressional intent, whether they liked it or not. I came from a form of government as a mayor where when the legislative body, the city council, asked something, it expected the Department heads to carry them out. There was no greater frustration than asking someone to do something and finding out months later that they had decided among themselves not to carry it out.

Mr. FRANK. Can I just say, Mr. Secretary, because I don't want to point the finger at you, you are trying. Early on, I was astounded when I asked an Assistant Secretary in the Reagan administration, Mr. Abrams, about a particular enactment and he said that is not in effect.

What do you mean it is not in effect, we passed it, it was signed. We haven't promulgated the regulations. And there really was a constitutional theory there that after a passage of a bill by both Houses and the signature of the President, came the really important thing which was the regulation, and withholding a regulation had virtually the same constitutional effect as a veto.

Secretary CISNEROS. Well, I don't buy that, and please know we are doing everything we can on those we like and those we don't like. Those that are going to get us in some hot water with particular constituencies or not, we are moving them to try to affect the intent of the Congress.

On the predisposition to the poor, I don't apologize for that. In fact, I stated it exactly as such, a predisposition toward the poor at our Department. It is a philosophy that has guided our work since the beginning. Our homeless initiatives, our public housing,



our fair housing, they all put the Department as advocate for those Americans who are the most disadvantaged.

But I do believe it is important where possible, and our homeownership and housing responsibilities require this, that we extend our programs to the middle class. When the Department was founded in the mid-1960's, it was viewed as the Housing Department with the housing obligations for the whole of American housing production, affordable production, homeownership. It is a role that I want the Department to reclaim. And so we are working hard at that.

Those are my responses to your points.

Mr. FRANK. I just ask unanimous consent, Mr. Chairman, to put into the record two charts that the Council of Large Public Housing Authorities took from HUD documents, which show what I think is the case, which is that the pipeline is in fact not a continuing problem, it is being drawn down on a regular basis, and I think they argued for continued level funding.

Secretary CISNEROS. What you say, Congressman, is correct. Let me just say, the way you have to look at this from my standpoint, that is to say the dilemma that I am confronted with, is given that that is true, where do I get the money, \$400 million, to offset the difference in modernization?

Does it come from the homeless programs or does it come from fair housing or does it come from an FHA initiative that is already stretched to the max, preservation or something?

Does it come from CDBG?

You know, where do I get \$400 million? And that is the context in which I have to work at this.

Chairman GONZALEZ. Without objection, the gentleman's request is so ordered.

[The charts referred to can be found in the appendix.]

Mr. Roth.

Mr. ROTH. Thank you, Mr. Chairman.

Mr. Secretary, it is nice to be with you this morning. I wish I could have been here for the entire hearing, but we have three different markups this morning.

But I want to come here basically to add, just to build on what Mr. Frank had mentioned before about people in homeless shelters should be, you know, safe and so on. And that is true. But by the same token, we also realize you can't have a policeman on every corner, in every lobby in the country.

You are going to be attending a conference, I am told, on St. Patrick's Day, you are going to be at Marquette University in Milwaukee?

Secretary CISNEROS. I think that is right, yes, sir.

Mr. ROTH. And, Mr. Secretary, I commend that program to you, because basically, I think, you can't do it all. You can't be like Atlas and have the entire globe on your shoulders. I think other people have to help correct many of these programs.

And I commend this experience at Marquette to you very highly. I have been there and I have seen what has happened and I wish I could be there to roll out the red carpet for you when they take up the Urban Initiatives Conference where you are going to be. And this is a 3-day forum for those who really play an integral part

in revitalizing America's cities. We want to showcase what Marquette has done to rehabilitate Avenues West, a 100-block area around the university.

Mr. Secretary, if you could have seen that area before and see it now, I think that you would be very, very impressed and——

Secretary CISNEROS. It is around Marquette?

Mr. ROTH. That is right around Marquette, and you are going to be there. The point I want to make here is that in order for you, I think, to do your job, it is going to take more than the government, more than the HUD agency, quite frankly. I think it is going to take, if we could use the word "value," you know, the President used it in the State of the Union Message, I think we have to go back to that. That is a question I want to pose to you, how are we going to do that? How do you feel about that?

Now, Mr. Secretary, Wisconsin leads the Nation in many ways, especially with respect to the financial services industry. And Wisconsin leads the Nation in its community reinvestment record in low-income areas. And so I urge you to look at Wisconsin's experience when you reinvent HUD. And in your letter of March 26, 1993 to me, you said that you are moving ahead—to quote: "We are moving ahead in our effort to transform the way HUD does business, not just to streamline but to rethink our mission and purpose." So I commend you in that area.

I want to ask you the question about values and how you are looking at changing the societies—the changes you have to make.

Secretary CISNEROS. No, Congressman Roth, but many of the problems that we deal with from urban poverty to crime cannot be dealt with by programs, cannot be budgeted, but require new acceptance of personal responsibility by individuals, families, churches, and neighborhoods across the country. I think the potential is there to see that proprietary acceptance of responsibility in communities across the country, but it doesn't absolve us from doing our part, which is to create decent settings in which people can live, to provide them a measure of safety and security, hence a program like our Operation Safe Home to try to make it possible for people to live in public housing without having to worry about the drug dealers that have taken over their hallways and stairwells. So it is a partnership.

But I do believe you are right and the President has spoken to this repeatedly in recent months, that we are in an era in which individuals must accept a greater responsibility because there is just no way that we in government with our limited resources can touch lives and communities as we would like.

Mr. ROTH. I had some 38 town hall meetings since the beginning of the year, and we have had record turnouts. And it is amazing how often this comes back like a theme in a symphony, when people get up and say, hey, we have got to take responsibility. I think the people have come to the conclusion that the government is not going to resolve the problems, that people have to get involved. And quite frankly, it is encouraging for me to hear that.

Secretary CISNEROS. The overarching theme of our work at HUD will be this concept of creating a platform, a base, and then working with people to move them along a ladder of opportunity. And that requires from that base that is provided, whether it is public



housing or a housing shelter or treatment or whatever the base is, whatever the platform that we provide, people will have to take steps on their own to get to a better life.

Mr. ROTH. Thank you, Mr. Chairman.

Chairman GONZALEZ. Thank you.

Well, thank you very much, Mr. Secretary. You have been most patient and your presentation is excellent and most helpful to us.

Secretary CISNEROS. Thank you very much.

Chairman GONZALEZ. And we will be, of course, in continuing contact with you as we go into the months of March and April. And we hope to have action by the following month out of the subcommittee, full committee, and the House.

Secretary CISNEROS. Thank you very much, Mr. Chairman.

Chairman GONZALEZ. So thank you very much. Thank you, sir, and your staffs.

We have two more witnesses, and I want to thank them in advance for their patience. They have been here all morning.

Mr. Richard C. Gentry, the executive director of the Richmond Redevelopment and Housing Authority of Richmond, Virginia, will speak here on behalf of the National Association of Housing and Redevelopment Officials; and Mr. Moises Loza, whom I mentioned earlier, who is the executive director of the Housing Assistance Council based here in DC.

Thank you again, gentlemen, as I said earlier for your patience.

But without any further ado, we will recognize you first, Mr. Gentry.

**STATEMENT OF RICHARD C. GENTRY, EXECUTIVE DIRECTOR, RICHMOND REDEVELOPMENT AND HOUSING AUTHORITY, RICHMOND, VA, ON BEHALF OF THE NATIONAL ASSOCIATION OF HOUSING AND REDEVELOPMENT OFFICIALS**

Mr. GENTRY. Thank you, Mr. Chairman, for the opportunity to be here today. My name is Richard C. Gentry and I am the executive director of the Richmond Redevelopment and Housing Authority in Richmond, Virginia. I am also the senior vice president of the National Association of Housing and Redevelopment Officials, on whose behalf I am testifying.

There is a written statement for the record and I will not try to go back through all of that. But what I would like to do is spend a couple of minutes just hitting some highlights from that testimony.

Chairman GONZALEZ. Yes, sir.

I wanted to thank you for that, because we have had it and looked it over. And it will be in the record, printed as you gave it to us.

You may proceed, sir.

Mr. GENTRY. And I would be glad to respond to any questions you may have at the end of these few comments.

As you well know, the NAHRO legislative agenda for this year proposes a number of modifications to HUD programs. Those include the following general areas: Rent reform for both public housing and section 8 renters; regulatory relief for local housing agencies; a merged Section 8 Program; crime grants for all housing authorities with HUD-approved plans and demonstrated need; public

housing operating subsidy revision; public housing modernization formula revision; restoration of the Consolidated Supply Program; extension of the lead paint testing deadline in public housing; and a number of other recommendations that we would make to you.

Two of these in particular I would like to reference just in passing. One is the issue of rent reform. And we in the industry are extremely pleased that both HUD and the Congress have embraced the concept of rent reform for public housing residents. This would reward work, encourage income mix within low-income developments, and enable families ultimately to move up and out of public housing which, after all, is the eventual goal.

NAHRO would go a step further and include rent reform for section 8 residents as well. After all, the section 8 residents are from the same income group as those people living in public housing and should have the same incentives to gain job training and employment.

Not proposed by HUD, nor included in your bill at this point, Mr. Chairman, is the issue of regulatory relief for local housing agencies. You may recall that when I testified last summer before this subcommittee on reforms of the Public Housing Development Program, I displayed for you an 8-foot chart. It took three of my employees to hold it up to give it proper viewing, of the steps that a housing authority has to take to acquire an existing piece of property from HUD.

We in Richmond are actively involved in trying to acquire FHA-repossessed units for public housing, rather than build new properties. And the problem from our standpoint is not the FHA disposition process, it is the HUD public housing acquisition process, which believe it or not, requires a 266-day process to acquire a single unit from HUD.

We believe that what we have displayed to you last summer is symptomatic of the micromanagement by HUD from which local housing authorities seek relief. Our proclaimer process, we believe, would significantly unburden not only housing authorities but also HUD from an onerous oversight process which delays program results and does little to safeguard the taxpayers' investment.

While we at NAHRO are pleased that the bottom line of HUD for the 1995 budget is \$1 billion more than the current fiscal year, we are shocked at the shortchanging of public housing programs contained in that HUD budget. With the exception of Indian Public Housing and Drug Elimination Grants which hold steady at this year's level, all other public housing accounts are reduced.

We are particularly concerned with the proposed reduction of public housing operating subsidies and modernization. Without accounting for inflation, the proposed budget for operating subsidies is at least \$268 million below the need. And will be less than 84 percent of full formula funding under the Performance Funding System, which was created by the Congress.

Modernization would be cut 14 percent, and a new \$85 million earmark proposed would lop off even more money for a new program.

Your bill, Mr. Chairman, on the other hand, rightfully recognizes the need to fully fund PFS and provides \$2.7 billion for operating



subsidies and \$3.3 billion for Public Housing Modernization, and we thank you for that.

Additionally, HUD proposes to slash Public Housing Development and Acquisition by some 31 percent, down to what we believe is an insignificant level of some 1,754 units for the entire country. There are more than 1 million families and seniors on waiting lists currently nationwide for this permanently affordable low-rent housing. They are doubled up, tripled up, split up, and homeless, while they wait for a decent place to live.

And we commend you, Mr. Chairman, and this subcommittee, for being the champion of the Public Housing Development and Acquisition Program and your bill would fund this program at a level which would enable us to continue to provide low-rent housing at a minimum level of some 7,400 units per year.

NAHRO has consistently indicated to the Congress and the administration that new programs must be funded with new money. Yet, the HUD budget proposes even more set-asides within current accounts to fund new programs.

By NAHRO's count, HUD is proposing some 12 new programs to be authorized at a total cost of some \$3.1 billion. In another time, with the Federal deficit under control and more generous HUD budget authority, many of us would be jumping for joy at these prospects. But the cold, hard facts of life are that these program proposals, if enacted, are certain to eat into the funding of current proven programs.

As I have heard Secretary Cisneros say a number of times, the great majority of the public housing authorities in this country, the public housing programs, are well managed, are well operated. We are blemished by the high-profile problems of a number of our agencies, but most of us run good, decent programs, and it doesn't make sense to enact cuts at our expense.

Further set-asides, earmarks, and reductions of current programs are the only way to pay for new initiatives, as we all know. And that, Mr. Chairman, and the members of the subcommittee, is simply unacceptable to us.

It is particularly ironic that HUD proposes more than \$3 billion in new programs at the same time it cuts public housing by \$1.4 billion, provides for no one-for-one replacements in public housing, lops off some \$200 million in CDBG through an earmark, cuts HOME monies by some \$275 million, and effectively adds only 45,000 net new section 8 units to the Nation's housing supply.

The U.S. Advisory Commission on Intergovernmental Relations has reported lately that the Federal aid system has some 506 microgrants to localities, at least in the year 1992. Of a total of 553 Federal aid grants, these microgrants, 506 out of 553 programs, consume only 10 percent of the Federal aid money going into localities, while requiring inordinate personnel costs and paperwork to administer from both the Federal level and to compete for from the local level.

An ACIR member was quoted as saying, and I believe it was Mayor Rendell from Philadelphia: "That money is tight, but the peewee grants still breed like rabbits—while Federal aid to local governments has declined steeply since 1978, special interests and

Federal micromanagers have tightened their grip in dividing up the pie. Federal help of this sort is counterproductive."

And I would maintain to you, Mr. Chairman, and to the subcommittee, that the proliferation of small microprograms is not what we need. What we need is predictable standard funding for many of the programs that have worked successfully for many, many years.

With the exception of the McKinney Block Grant proposal and the use of UDAG recaptures for loan-loss reserves and bridge loans under the section 108 loan guarantees, the new programs that HUD has proposed today are new to NAHRO and many of the other public interest groups as well. I will, therefore, this morning reserve judgment on them until we have seen the specifics of legislative language, but I would point out the apparent problems and dangers of going to new programs at the expense of existing proven programs.

Just lately, the HUD inspector general has identified that the proliferation of programs coupled with the decline in HUD staffing is a major part of the material weakness which is identified in the performance of the Department of Housing and Urban Development. We maintain that we all need to proceed cautiously here as we seek to reinvent HUD and ourselves and develop creative approaches to stretch HUD resources further and to achieve the most return on this crucial Federal investment. We would not want to see existing programs hurt with the problems of new programs.

Thank you, sir.

[The prepared statement of Mr. Gentry can be found in the appendix.]

Chairman GONZALEZ. Thank you very much, Mr. Gentry, and also again for the statement you gave us in writing.

Mr. Loza, thank you again.

#### STATEMENT OF MOISES LOZA, EXECUTIVE DIRECTOR, HOUSING ASSISTANCE COUNCIL

Mr. LOZA. Thank you, Mr. Chairman.

Good morning, Mr. Chairman, and members of the subcommittee. My name is Moises Loza. I head a corporation which works to improve rural housing for low-income Americans.

Before anything else, I would like to thank you, Mr. Chairman, and members of the subcommittee, for this opportunity to comment on H.R. 3838. This particular bill is going to be a major, major ingredient in the mix as we look to housing assistance, what is available and how it is available in the next several years. With an activist leader at HUD and with an ongoing reorganization at the Department of Agriculture, it is going to be very interesting to see where all this leads us.

We think that H.R. 3838 is an excellent start, Mr. Chairman, and we are very pleased overall with what you and your staff have done with this particular bill.

My comments are obviously directed toward the rural portions of the bill. First, I would like to comment on Title V, which are the programs administered by the Farmers Home Administration. We think that the spending levels you have authorized are fairly ade-



quate. We also are pleased that you have decided to permanently authorize the Section 515 Rental Housing Program.

Before commenting on other specifics, Mr. Chairman, there is an issue that while not in your bill, I think that this subcommittee needs to concern itself with. The administration proposes to increase from 20 to 30 percent the proportion of income that Farmers Home, section 502 borrowers will have to pay for their principal, interest, taxes, and insurance.

Our initial analysis indicates that the result would be a dramatic shift upward in the level of family incomes needed to participate in this particular program. With utilities and maintenance included, those currently participating in the program would see their shelter costs increase 40 to 50 percent.

In trying to understand the administration's rationale for this proposal, we understand that one, it is an intent to save the government money. The other thing we understand is that there seems to be the mistaken impression that the 502 Program needs to be made equivalent with the rental assistance programs of the government. When utilities and maintenance expenses are added to the 502 Homeownership Program, in fact, families already pay 30 percent and more of their income for housing. If the costs for principal, interest, taxes and insurance are increased to 30 percent of family incomes, we are afraid that, where the government proposes to save money, it may be seeing some severe losses because the costs that the families would now have to bear would go up dramatically.

We can provide later to this subcommittee some more specific analysis. For example, we took a family in Mississippi and found that a 502 borrower there, this is an existing borrower, who would have to pay 30 percent of his income, would have \$2,900 left for other expenses after having his costs raised for housing; \$2,900 is not a lot for a family of 4 to cover transportation, food, clothing, medicine, and other kinds of expenses.

So we raise this, Mr. Chairman, not because it is in H.R. 3838, but we do think it is an issue that we hope this subcommittee will pay some attention to. We think it is very serious. We propose to continue to do some analyses, take some actual situations to tell you the real effect of this particular proposal, and then hope that the subcommittee will address this issue.

We are very pleased to see included in the bill's title the new Rural Housing Capacity Demonstration Program for Native Americans and Alaskan Natives. The Farmers Home Programs should be a supplementary housing resource for the reservations. For years, the Housing Assistance Council has worked to try to introduce the Farmers Home Administration programs on the Indian Reservations. They do provide some resources, they do provide some opportunities, but we have not seen a lot of headway made in this area.

In the last 3 fiscal years, only six-tenths of 1 percent of the Farmers Home homeownership and home repair assistance has gone to Native Americans. We think this can increase and we think that this particular provision in the bill can help us do that. We say that with some authority.

For the last couple of years, we have run a demonstration program on four reservations in the Midwest. We have had some fund-

ing from the Northwest Area Foundation. By bringing together the tribal leaders, the housing authorities on the reservation, the Farmers Home Administration, and by employing some of the tribal members, we have been able to develop well over 150 applications for Native Americans to improve their housing.

The experiment or the demonstration that has been funded by the Northwest Area Foundation will continue for another 2 years. What we hope is that this particular provision will give us an opportunity to expand that particular demonstration and make Farmers Home Administration housing programs available to a larger population in the Indian community.

Let me mention the underserved areas, Mr. Chairman. We are very pleased that you have agreed to extend in your bill the designation of underserved areas. We have seen this program grow slowly. We have seen some real success. The purpose was to designate those areas where traditionally there had been no assistance delivered, where there was high poverty, high unemployment, and high rates of substandard housing.

We also found, however, that 1 year's designation really was not enough. It takes a while to develop capacity in those communities. In addition to that, by the time Farmers Home designated the communities and made the set-asides available, a good part of the fiscal year had elapsed. By increasing the time of the designation to 2 years, and 3 years on reservations, we think that we can make this particular program more successful.

Let me make a couple of comments on the HUD Programs, Mr. Chairman. First of all, we have all seen the activism and the energy and the initiatives taken by Secretary Cisneros. In fact, the Secretary has established a Special Actions Office that looks particularly at colonias, farmworkers, and rural housing, and for the first time people within the Department carry that as their main responsibility. They have been going around the country talking up and trying to get more involvement and more resources into those communities. We are very, very encouraged by all of that.

The administration's proposal for 1995 proposes a \$100 million appropriation for work in the colonias, and again we think that that is very, very encouraging. We support, consistent with that, the provision in your bill, Mr. Chairman, that would amend section 10 of the Housing and Community Development Act to include colonias activities, and also to reauthorize the set-asides of the CDBG money to go to colonias. We have seen that set-aside work well in some States and not at all in other States. We expect that with the Secretary's leadership and maybe with some time, that will turn around and we will see additional activity.

We think that with the administration's additional \$100 million, more flexible money can go to colonias, and we may begin to see more activity and better results than we have seen thus far.

On the Homelessness Program, again we are happy to see the rural homeless grant as one of your provisions. We understand that HUD presently is thinking of setting aside 25 percent of its homeless money to non-Metro areas. One of the reasons we think that having your particular provision in the bill is important is that the set-aside of the money to non-Metro areas does not guarantee that those funds go to very small communities.

In my testimony I mention that from 1987 to 1991, only 2 percent of all the supportive housing for the Homeless Program funds went to non-Metro communities with populations of less than 20,000. The provision in your bill specifically targets and designates very small communities for assistance. Unfortunately, we think that unless those things are done, that the non-Metro portions or allocations end up in the larger communities, and in fact it is in the smaller, more isolated communities, where the need is greater. And it is much, much more difficult to affect some change there.

To conclude, Mr. Chairman, I'd like to say that we believe that the proposed act will help meet much of the need for affordable housing in our country, rural and urban. And I would like to reiterate that we support and are very grateful to you and to the subcommittee's efforts in this bill and elsewhere on behalf of low-income and community development.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Loza can be found in the appendix.]

Chairman GONZALEZ. Well, once again, I want to express gratitude in the name of the subcommittee.

Over the course of the years, since I became chairman, you have contributed greatly.

You commented on section 502, which was one of the matters that I had wanted to discuss, concerning the impact of the increase in the borrower's share to 30 percent.

But again, we go back to that amendment, in 1987 I believe, where we had that definition applied to people on very low income. So I guess you anticipate that this would have some impact on FmHA's ability to meet its needs with respect to the very low—

Mr. LOZA. Yes.

Chairman GONZALEZ. I don't know if you remember the big discussion and the flap that ensued in interpreting that. How some State administrators, in the allocation of the funds through the State, began to interpret it in a way that greatly narrowed it. So I don't know if you wish to expand on that now, or have us wait to hear from you.

Mr. LOZA. Well, if I may comment very briefly, Mr. Chairman. The Farmers Home Administration is required to set aside 40 percent of its homeownership money to very low-income families. And, in fact, that program has taken off slowly, but it has begun to see some results.

Presently, the agency looks at a family's budget to see whether in fact it can qualify, and also whether it can handle, from a budget standpoint, a homeownership loan. We have begun to see more and more of the 40 percent of very low-income money being spent by most of the States. There is also a proposal by Farmers Home to go to a formula where if you, with certain percentage of your income, can meet certain costs, then you are qualified for a loan. So that now we have a more subjective and we may go to a more objective sort of standpoint.

Our concern, and as I say, we are trying to fine tune some of our analyses, is that under a budget approach, when a person reviewing a budget sees that, as I said in this particular case in Mis-



Mississippi, there is only \$2,900 left, anyone making a responsible loan would say you can't handle this. If we go to a formula, I think we are going to find ourselves with the same result, that the percentage of money that goes for housing is because there is some theory or some experience that that leaves some amounts of money for other costs.

But whether this is done by formula, whether an objective or a subjective basis, in fact this is going to leave very, very little money for other costs. And I think we put families in situations where they just can't afford the housing.

There are many families now who are in the program, and as we understand it, the proposal would also apply to families who are present borrowers, so we are going to see dramatic shifts upward of the cost per housing and we have to worry about what it does for all the other expenses they have to bear.

Chairman GONZALEZ. I can see and I agree with you thoroughly. I have witnessed this time and time again, and I have said it would be very false economically and very costly in the long run.

Well, it looks as if you are saving money, but again I say it is false economy. And when you get to raising those income levels, it is bothersome.

But I am really grateful that you have given it such thought. We expect to continue to hear from you as we proceed toward the markup of the bill. We want to do it very expeditiously and on a schedule, so you will be hearing from us.

Mr. Gentry, thank you, again, and of course, I recall your testimony. It was just last year, wasn't it?

Mr. GENTRY. Last summer, yes.

Chairman GONZALEZ. Last summer. In fact, I still have it in the office. But what further comments or extension of your thinking could you offer us on this proposal to reduce the upper limit of the fair market rents to the 40 percent percentile from the 45 percent?

It seems that this would create conflicts with this action and the other actions of the Department, in its attempt to stimulate or foster economic and racial integration.

Do you see that as a possible conflict?

Mr. GENTRY. Absolutely. I agree with you totally. NAHRO's position is that reduction in the percentile of local rents to which FMRs are set would likely result in the further ghettoization of section 8 residents. It would reduce their choice. And it flies in the face of the Department's professed interest in expanding housing choice among section 8 renters.

As a matter of fact, our position is not only do we not think it should be reduced, we think it should be increased. We think it should go up to where it was in 1985. And we think it would provide greater choice, greater opportunity, and help foster greater integration. So we would agree with you entirely.

Chairman GONZALEZ. I would certainly agree with the original presentations by NAHRO, and the analysis. I think they have proven out that the net impact is as you have described it.

Do you know if estimates have been made as to the number of families or the statistical projection on the number of families that would be served by these reductions?

And on the other hand, families that would not? I guess you experience it, but do you know if any statistical gathering has been effectuated?

Mr. GENTRY. I am not aware of one, sir, either from us supporting an increase in the FMR rate, nor from HUD supporting the decrease. I think this would relate to our values and the way we want to see the program run. And from my experience in operating this program, not only in Richmond but in Austin, Texas, where I was, as you may recall, and Greensboro, North Carolina before that, the more opportunity you can provide residents to maximize their choice in units within the area that the housing authority serves, the better the program works.

It makes it possible for more landlords to participate, it makes it possible for section 8 certificate holders to live in areas of town they would otherwise be excluded from, and therefore helps to foster not only racial but economic integration.

And we think what the administration is proposing is another example of false economy. It might stretch a dollar or two more now, but I think in the long term it would not save the government money.

Chairman GONZALEZ. I guess in the beginning of my political experience as an elected official on the city council, it was a very bruising initial 2 years. I won reelection as an independent and served 1 year and then ran for the Senate, and to the surprise of everybody, including myself, I won.

But one of the lessons that was forever impressed on me is there is really nothing new under the Sun. The first time I got elected was the only time I ran on a ticket. I came in with a crew that wanted to bring our local government under control, and cut and economize.

And they did. They slashed and they gutted and they cut. As enthusiastic as I was, though, I instinctively reacted negatively, so that set me apart from the club, because we had run on a ticket. I found out never again to run on a ticket for that reason. But I discovered the after effect of what was touted as good economics ended up costing the city of San Antonio the total amount of the budget we had that first year, \$40 million.

A few years later, when a competent city manager was hired along with a progressive council, you had an entirely different atmosphere, and that's what it took to repair the damage.

But I then defined true economy by not necessarily cutting, but by making sure that the people got 100 cents' worth of every government or taxpayer dollar. If you can get 100 cents' worth of service for every dollar, as was intended, that was a true economy, and not just necessarily cutting. It is very hard to try to express this concept.

These are lessons you learn, and they were like revelations at the time. But through the years I have seen this, to my amazement and chagrin, taking over in Congress. Not necessarily only with the immediate past administrations, but going back some time.

I can remember when Lyndon Johnson turned the lights off at the White House to economize. Everybody knew he was doing it in spirit, to economize, and laughed at it realizing it was ridiculous.

But, nevertheless, we have reached those points. The thing that I think is terrible is that we have institutionalized the thinking, and as you mentioned a while ago, for instance, that this also tends to discourage the property owners to get into the program. I wanted to ask you one final question or comment, and then I will submit some others in writing for you. That is that we have had, or at least I have had, some disturbing reports about the unwillingness of landlords to participate in the program, and that these landlords or owners tend to discriminate against the certificate or the voucher holders. The reason being they seem to attach a stigma to a "government program." In fact we have a report from Los Angeles that this type of discrimination is quite prevalent and aggravating.

Now, the question is, what do we do? Do we pass a law? Do we have to enact legislation to outlaw that kind of discrimination in the use of vouchers and certificates? I don't know about national legislation, maybe perhaps locally, but we have laws now that I think are fairly general in applicability that could be utilized.

But have you had any chance or has NAHRO had any reports similar to these?

Mr. GENTRY. I think I could separate that into two subissues. One is that it does occur more frequently than we would prefer, that landlords will use discrimination against section 8 holders as a proxy discrimination for other illegal discrimination. In other words, it may be an observation that this is a way to keep minorities out of a particular property. And I think strengthening the fair housing laws would be an approach to deal with that.

That law is already in effect. It does work. And I know the Secretary is proposing to increase focus on that. But I think that law is in effect and can work, where a landlord says one thing but really means another.

The other, where there is no currently illegal discrimination going on but there is a reluctance by a landlord to deal with the Section 8 Program, has a result on the property market situation. When we first got the Section 8 Program running in North Carolina in 1975, 1976, where the property market was in pretty strong shape, there was a good deal of reluctance. I think it is fair to say that a property owner probably is not going to want to fool with government unless he has to. If he is able to rent the property in the market setting and not deal with section 8, he is not going to.

On the other hand, when I was in Texas in late 1987, as you well understand, in the middle of the property bust, landlords loved us. They were coming in the door unsolicited.

I think it is purely a condition of the marketplace. I know in current situations where it is still a weak property market, like much of Texas, Louisiana, and Oklahoma, it works very well. Whereas if you go into areas like New York City, L.A., San Francisco, where there is a very tight property market, it is more difficult to make it work. And coming up with a national law that would solve those local market issues I think would be problematic.

Chairman GONZALEZ. Yes, sir. Well, that is a very perceptive, very good observation. But we do intend to look into it from the standpoint that you suggested in your first discussion or is there perhaps some way of finessing the existing Fair Housing Act.



Mr. GENTRY. And on that approach, it is a simple technique for market testers on discrimination. That is, if a landlord turns away a minority when it does not turn away a nonminority, that is a pretty clear indication. But when a landlord is willing to take a minority or any other applicant until he learns that person is a certificate holder, that is a different kind of attitude. I suspect that landlords under the latter are concentrated in strong market areas.

Chairman GONZALEZ. Yes. Well, I am sure you are right from my own observations. We have been getting these reports in a more numerous and substantial number lately. But thank you very much.

Mrs. Roukema.

Mrs. ROUKEMA. Thank you, Mr. Chairman.

I want to thank our panel here.

Mr. Gentry, you laid out I think your priorities quite well. They are consistent with what I think my priorities are, too. And I noted that you identified at least one—I don't know how many more, maybe I missed them, we will go over the testimony—other ways of saving money in deference to the reality of the budget restraints we are under.

You mentioned the proliferation of small microprograms. I certainly agree with that. There are other reasons why we should go to more block grants or either larger programs or block grants that give more discretion to the local level rather than categorical grants, and I certainly agree with that.

But that is not going to save us the amount of money that is necessary here in terms of meeting the budget requirements. I assume, though, that you would, as I have already indicated, put your priority, of course, if you are weighing the public housing versus an extraordinary increase in homelessness where the programs have questionable returns, whether or not you are not really cutting off—I mean, really adding to the problem. Would you comment further on that?

Mr. GENTRY. Yes, ma'am. Public housing remains the single largest resource for housing the homeless now. As a matter of fact, under the federally required preferences, we must give—we, local housing authorities, must give preference to people who are without housing.

Now, we also tend not to house single people unless they are elderly, disabled, or handicapped, so there are some single homeless individuals who might not be served by our programs, but a homeless family, which is the nontraditional category that the Secretary indicated a while ago has been growing in recent years, we are the primary resource for that already.

And in Richmond we are constantly receiving referrals from the Department of Social Services in Richmond on mothers and children who are involuntarily displaced through no fault of their own, are homeless. They get priority for admission. We are already doing that. And to go through the false economy, reducing our funding, both for Operating Subsidy or for Modernization is going to cause you all some worse problems in the future.

And I give you a couple of examples. As you both well know, housing authorities are forbidden by law from raising rent on ten-

ants to make up for loss of subsidy. The rents are set by law at 30 percent of income.

So we could not make up for loss of subsidy by raising rents, nor should we. We serve some very poor people. In Richmond, Virginia, our average family income is \$7,100 per family per year. Eighty-eight percent of my clientele is on some form of public assistance. Their average rent is \$125. This is net, per month. Per family. This is not a clientele you would raise rent on anyway.

But what would happen if operating subsidies are reduced? Since we cannot increase rent to make up for it, we will have to cut down on expenses. Maintenance is the single largest area in our budget, and if we reduce spending on maintenance, then we reduce the liveability of our properties.

In Richmond, the Richmond police chief subscribes to something he calls the broken window theory, and that is if a window is broken on a residential property for an inordinate amount of time, it attracts crime. The criminals, dope dealers, show up when they think nobody cares. So if we don't keep our properties up, we are adding a burden back to our residents.

When I was in Austin, Texas, the police chief told me the single best thing I could do to help him fight crime and drugs in the communities was by maintaining the properties. The drug dealers and criminals are going to go where they think they won't be bothered.

If we allow our public housing developments to fall into decay through some sort of savings rationale, we are going to worsen the plight of families for housing and we are going to be back at your doorstep in a couple of years for a program like the Severely Distressed Program a couple of years ago, which was caused by false savings a few years ago.

Mrs. ROUKEMA. You alluded in here—Mr. Loza might want to comment as well—but you alluded to the set-asides for new programs taking up an inordinate amount of funding obligations. One of those programs is the empowerment zones, which are for rural as well as urban areas, and I think accounts for 500 million new dollars.

Would either of you like to comment on the empowerment zone relative to your priorities as you see them? You don't have to if you don't want to, but it is an obvious area for creation of a new program, and it is a considerable amount of money.

Mr. GENTRY. It is difficult to be too critical of a new program that is only potential. Public housing—

Mrs. ROUKEMA. Yes, but that is how they all get started.

Mr. GENTRY. Public housing has been around 50 years, and when you have been around that long, warts are going to show. I prefer to talk about our successes.

You talk about empowerment. Let me give you an example of something we have done in Richmond using Modernization monies that has provided a great deal of empowerment to public housing residents. We used some of our management monies under Modernization some 2 years ago to set up a program called the Richmond Business and Employment Development Center [RBEDC]. What that is, is our assistance to residents to create resident-owned corporations who then do work with us.

Not only that way are our residents employed—and 25 percent of my work force, by the way, either are currently residents of public housing or were when we hired them—but we set up some corporations, a painting corporation, a janitorial corporation, a grounds care corporation, and we have others planned, where the residents own those corporations, and then do work back with us by contract.

And we have had that in operation now about 2 years. We have cut contracts covering several hundred thousand dollars. That has provided a great deal of real, hard empowerment to distinct human beings who needed the help. And that has worked very well.

So any time you look at taking money away from a program that is providing real benefits to something that has the potential, of course, you look for new and better ways of doing things, but you don't automatically destroy something that for the most part is working well on the off chance that something else might be better.

Mrs. ROUKEMA. Where did you say you got the capital, the investment for that?

Mr. GENTRY. Management improvement monies out of our Modernization monies. Currently, about 10 percent of our Modernization monies may be used for management improvements or soft side activities. And HUD has allowed, rightly so, housing authorities to be very creative in the way we do that. It can be anywhere from turning around a troubled housing authority, as I used that money for when I was in Austin, Texas, to resident empowerment activities as we are using them for in Richmond, to other type activities.

But what it means is that housing authorities currently have within their powers, with current funding vehicles, to design specific responses to specific local issues. And it may be that what Richmond needs is not at all what northern New Jersey needs or what central Texas needs, but that programs already have some flexibility, although we would certainly advocate for more with continued deregulation. But to automatically reduce what is already there in order to provide something new that is not tested and we are not sure of, doesn't make sense.

Mrs. ROUKEMA. Mr. Loza, do you wish to comment from a rural perspective?

Mr. LOZA. I will comment briefly, Mrs. Roukema. The concept of empowerment zones is not different from what we have argued about regarding the reorganization of the Department of Agriculture. One of the concepts is that there are different resources brought to a particular area so that it gets a holistic development approach as opposed to parceling and piecing. As far as that goes, it is something we think has some merit.

Like Mr. Gentry, we are not quite sure how it is going to work. From our perspective, rural areas needs aren't isolated or can't be separated. A person needing housing also needs jobs and also needs infrastructure and a hospital and a school and all those kinds of things.

And if the empowerment zones in part address those very needs, then there is, I think, some merit to the concept.



I think we are, like Mr. Gentry, worried that you are going to take from somewhere else to do that, and we just don't know beyond that.

Mrs. ROUKEMA. Thank you, Mr. Chairman. I have no further questions.

Chairman GONZALEZ. Thank you.

Again, almost imperceptible things have happened here. Originally, we had a sort of a dictum that if you had a new program, you looked for new financing. We have gone into this other imperceptively whereby now you get a new program, but as long as you are going to shift the money from somewhere else, you don't have to worry about getting new money.

Well, that is why I said earlier that the concept that you can rob Peter to help Paul has ended up ironically in robbing both Peter and Paul.

Of course, it was inevitable. I noticed that around the middle of the 1980's, we had a spending freeze. What we have to do is freeze the budget. I found myself arguing at the table in the caucus, with my own majority. I was the only one saying that it didn't make sense to me. The response was, "Well, you want to be Don Quixote." And I answered that "I would rather be Don Quixote than Sancho Panza." It didn't help me, so I found myself isolated.

I said I would go along—I had to yield, of course, and I always do, because that is the essence of our governance, as representatives of the American people. The majority rules, and it is always the social contract in this arrangement that the lesser yields to the greater. And when we have a disturbance I will tell you what. If you will freeze births in this country, I will go along with the freeze.

The point I was trying to make was they were talking as if this country has suddenly leveled off. It is still dynamic. It is still a growing country. We have more people now than we had 3 years ago.

Mr. GENTRY. Yes, we do.

Chairman GONZALEZ. That means you have to have shelter. No matter where a human lives on the globe, the three indispensable necessities are food, shelter, and clothing, which we learned in grammar school, but we seem to have forgotten.

So we went into another phase with the advent of Gramm-Rudman and thought that all of a sudden the budget would be balanced. This was in 1986. By 1991, here in this subcommittee when we would have the next shift and we come in with the Humphrey-Hawkins bill, and the chairman would explain it. Then Chairman Hawkins would ask me to handle it in the full House, and debate the monetary aspects of the Hawkins-Humphrey Report. I never will forget in March 1986, the effective date of the Gramm-Rudman-Hollings bill.

Nowadays, you don't hear anything about it. But for many years this was an absolute sacred cow. You had to stick to it, so they said. On March 15, because of the Gramm-Rudman effectiveness, we were supposed to have a \$15 billion reduction in the debt in the first quarter. But I got up and pointed out that same day, that it was a myth, a delusion, because the cost of servicing the debt, and

the interest, was going to be \$30 billion, cancelling out the \$15 billion and leaving us \$15 billion more in the hole.

So here we come to the most vital section of all, which is shelter and community development. If you are going to have shelter, it means you have to have water, light, streets, schools, and all that goes with them.

So that has been the whole basis of my own individual approach, how to encompass a more panoramic or holistic approach. But it just looks like we'll have to sit here and take the hard lumps. But there is no connection. There is no connection between the decisions we were making in 1986 and the consequences now that we are still addressing.

So the whole Congress, the White House, and everybody else are not dedicated to answering the burgeoning needs that are coming from the midst of our country. They are great and they are growing, because we now have forces over which we no longer have control. External to our shores, no matter what we do internally, we are going to be impacted, affecting us every day in our standard of living.

So we are addressing issues negatively to try to make up for the problems that we have created, and that we have to face.

Our ideas to fight homelessness was like public housing in the beginning. I remember the first public housing projects attempted to eliminate slums. You couldn't build anywhere other than in slum areas. You couldn't build on open land, until the Housing Act of 1947. But it used to be that you had to have one slum unit eliminated to build a public housing unit.

That was because of the Depression, and soon we had normalcy. I did a study later when I worked for the public housing authority in San Antonio, and found that over 90 percent of those families that started living on the west side developments ended up being homeowners.

But you had a different type of demographic and societal condition. The families living during the Depression in public housing, they were broke, but they weren't poor in the sense that they were unified, they weren't broken up. Then with all of the things that happened during the war, and I could see that nobody was paying much attention to housing issues after it. In order to qualify for public housing it almost seemed that you either had to be split up, on relief or something like that.

So how could it not have ended up the way it did in the 1950's, 1960's, and 1970's? So then we had the innovations—everything from turnkey housing to vouchers and all have been touted as a way to save us from public housing. If you look at the arguments, that is what they were, public housing. And you were dead right. What other program have we had around this country to house the very poor, being mainly the homeless.

So your observations here are most welcome, as they are most perceptive. I want to thank you and the NAHRO that you represent.

From 1950 to 1953 I worked in the Expansion Program for public housing in San Antonio. I was named the Assistant Director for Land Acquisition, Family Relocation. And for the first time this morning, Marge, I heard Secretary Cisneros saying how they were

getting these agencies together in L.A. We had 454 families that we had to relocate in San Antonio between 1950 and 1953, and I was able to do it without one single eviction order. But we had to evade the old PHA regulations, and the way I did it was to talk to the construction foreman that was going to demolish it all and give him a list of a few of the homes that were in the middle of dwellings that were lean-tos. This is between 1950 and 1953. The lean-tos had dirt floors, cardboard in some cases, and no drinking water except for a common fountain for about a dozen families. Can you imagine that?

But, lo and behold, we were able to persuade the contractor to set aside those that were standard. There were some standard homes by definition of PHA. But some of these others, of course, there was nothing you could do about.

We were able to work with the appraiser also and explain that even though this shack here may not be anything compared to the appraisals in this area, it is shelter.

Then we gave it some basic value. Then for those families that had at least \$700 based on whatever appraisal they had, it was a substandard home, without inside plumbing or anything. But we gave them a chance to buy the standard house at 15 percent of its appraised value, and with that they had enough money to find a lot and move it. Every one of those 454 families was relocated in an entirely upgraded and satisfactory environment.

We had to stretch the rules and I had a very brilliant director, Ms. Marie McGuire, from Houston. But it worked, and I hear Mr. Cisneros saying they are going to use a modified form of it. All we had to do was bring these generalized relations and whatnot together to make them work.

Because, as you said, in your locality, this is working. Maybe it won't work in Chicago, or in San Antonio, but it certainly has in yours. And you ought to have that discretion.

Mr. GENTRY. Yes, sir.

Chairman GONZALEZ. So I wanted to compliment you and thank you, because you have evoked memories of past experiences that prove that you are absolutely correct.

Mr. GENTRY. Thank you. I appreciate the opportunity to be here. I would ask you to do one other thing for me, if you please.

Chairman GONZALEZ. Certainly. Absolutely.

Mr. GENTRY. For a number of years—and this idea that there is some sort of a pipeline of unspent money hanging around for us to use, it is absolutely false. Would you please require HUD to show you a breakdown of where that money is?

Chairman GONZALEZ. Mr. Frank is on that and I am working with him. In fact, he took a subcommittee chairmanship so he is no longer a member of the subcommittee. But in any event, yes, sir, I got your message, and I also intend to work real hard to see what we can do to prevent the sharp reduction in the comprehensive budget. So we will do what we can here.

I have one good piece of news for you that hasn't been generally noted. The last year, we have had the chairman of the Subcommittee on Appropriations that has jurisdiction of HUD and other independent agencies from Cleveland. He has been the most responsive



of all the previous two chairmen we have had that I have worked with since I have been chairman.

In fact, you signed the letter when we had this emergency supplemental just 10 days ago, and here we are having the Senate cut \$400 million plus.

If you think you had a reduction now—and we got to working and we signed the letter and we got Mr. Stokes and we broke that. But, unfortunately, that was the \$78 million that we addressed earlier. We still have to try to make up for it.

So I would also like to thank Marge Roukema. She has been a rock and I am very grateful. We get into some areas in which it is a little bit more difficult, but whether difficult outside or not, in this subcommittee we have had a very wonderful, harmonious relationship. We have managed to do things on a bipartisan basis, regardless of what administration is in power.

Mrs. ROUKEMA. Recently.

Chairman GONZALEZ. Recently.

So thank you, Mr. Gentry.

And Mr. Loza, again, I repeat, thank you.

[Whereupon, at 1 p.m., the hearing was adjourned.]



## H.R. 3838; HOUSING AND COMMUNITY DEVELOPMENT ACT OF 1994

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THURSDAY, MARCH 10, 1994

HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON HOUSING  
AND COMMUNITY DEVELOPMENT,  
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS,  
*Washington, DC.*

The subcommittee met, pursuant to notice, at 10 a.m., in room 2128, Rayburn House Office Building, Hon. Henry B. Gonzalez [chairman of the subcommittee] presiding.

Present: Chairman Gonzalez, Representatives Maloney, Furse, Velazquez, Watt, Roukema, Bereuter, and Thomas of Wyoming.

Chairman GONZALEZ. The subcommittee will please come to order.

This morning we are very happy to welcome Mr. Michael V. Dunn, Administrator of the Farmers Home Administration, in his first appearance before the subcommittee; and also our good, long time friend, Judy England-Joseph, Director of Housing and Community Development Issues at the General Accounting Office, in the second of our reauthorization hearings this legislative session. Their testimony will focus on the administration's rural housing priorities and GAO's broad and incisive review of work completed since the last Reauthorization bill.

As you know, I introduced H.R. 3838, the Housing and Community Development Act of 1994, with 21 members of the committee as original cosponsors, on February 10. This legislation includes the regular reauthorizations required, some technical and clarifying changes, and a number of rural housing initiatives.

We have also included several rural housing provisions which I note the administration will propose, such as permanent authority for the Section 515 Rural Rental Housing Program, even in the face of recent revelations about serious health and safety violations in projects in several States.

I note that the Department believes, as I do, that these problems should not be seen as an indictment of the Section 515 Rural Rental Housing Program. As a matter of fact, it would be an injustice to even consider that in view of the long time successful history of this program. We are particularly interested in Mr. Dunn's comments about these provisions and the recent activity surrounding the Section 515 Program.

We are also interested in learning about the administration's budget priorities and the planned reorganization of the Department of Agriculture, the breakup of the Farmers Home Administration,



and the creation of the Rural Housing and Community Development Service.

I know, as in the past—in fact in the 1980's—the subcommittee had considerable problems because we could never get the Secretary of Agriculture or the various Secretaries of Agriculture. So they would send us either the interim designees or interim holders; or they would send nonpolicy determining office holders, so it was quite difficult in the 1980's. Then, during the immediate past administration, I believe we had considerable restoration of stability and input.

So I am hopeful that though we know Mr. Dunn cannot answer for the Secretary's reorganization mandate, as all of the Departments are under the Vice President's directives, we still are interested in hearing him.

Certainly, I wanted to thank Mr. Dunn for providing the subcommittee members with the extensive and substantive briefing materials that we received.

Also, I wanted to thank Ms. England-Joseph. Since the consideration of the last reauthorization legislation, the GAO has completed or initiated a number of studies on programs and policies which we will have to consider again this year; and some of these findings have been incorporated into H.R. 3838.

Once again, the subcommittee is interested in your review of these studies and their implications for this year's legislation. We are specifically interested in your recommendations about the major issues GAO has examined, including property disposition, loan services, and default prevention, the Section 8 Program, such as the merger of certificates and vouchers and fair market rents, community development, economic development, homelessness, and several rural housing issues. The GAO's insights have always been invaluable to us in our deliberations concerning housing and community development legislation.

We are looking forward to the testimony.

[The prepared statement of Chairman Gonzalez can be found in the appendix.]

I am very happy to recognize Mrs. Roukema.

Mrs. ROUKEMA. Thank you, Mr. Chairman. I would like the full text of my remarks to be included in the record.

Chairman GONZALEZ. Without objection.

Mrs. ROUKEMA. I want to note that this is a very timely, important hearing, in both cases—with the GAO as well as Farmers Home—particularly with the GAO report. As you well know or remember, it was as recently as late January when, before a Senate committee, the head of the GAO, Mr. Bowsher, announced they were adding the Department of HUD to the list of high-risk agencies. We all noted that with some chagrin and sense of anxiety. I believe, if I am informed correctly, this was the first time the Department has ever been placed on such a list.

Obviously, there are numbers of problems there which I expect to hear about today from those who are testifying from the GAO. Mr. Bowsher at that time was rather specific as to the problems. I will not go into them here; I believe we will hear more of that in the testimony.

But I will say it was a serious and extraordinary indictment of the Department and a serious warning to all of us we should be conducting proper oversight here as we are doing today, and there will have to be proper followthrough. One of my concerns, however, is that when we spoke with, or had the Secretary, Mr. Cisneros, here just 2 weeks ago, he outlined his five priorities. But I think the HUD improvements, management improvements, were last on his list of five. I hope that did not represent a lack of attention to it; but it is something that certainly I intend to follow through on with some intensity of focus.

I think we can look forward to cooperating together, Mr. Chairman, in that regard. I would simply like to say that I would reflect and echo your concerns, or the concerns already outlined by the Department of Agriculture on the 515 Program; and I certainly hope we are going to move aggressively to get to the bottom of that problem and not have another developing housing scandal on our hands.

So I welcome the testimony here today.

Mr. Chairman, I might say to those who are testifying and to our colleagues here that I do have a conflict with the Health Care bill that is coming before our committee today on Labor-Management. I may have to leave before the conclusion of the hearing. I will stay as long as I can.

Thank you, Mr. Chairman. As you know, that is a fairly high priority, the Health Care bill. We are moving ahead aggressively on Education and Labor.

[The prepared statement of Mrs. Roukema can be found in the appendix.]

Chairman GONZALEZ. The gentlewoman is leaving the semisublime to go to the semiridiculous.

Mrs. ROUKEMA. Worse than that, the only thing you learn when you deal with Health Care and the Reform bill is the more you know about it is that the less you know, you understand better. It becomes a very difficult moving machine. Every part affects every other moving part. I think we are getting some enlightenment on the subject, slowly but surely.

Chairman GONZALEZ. I wish you well. It is complicated. You have about seven or eight committees on the House side that have jurisdiction on parts of it.

Mrs. ROUKEMA. At least three. At least three who will be reporting—oh, we have expanded the number. I see. I see.

Chairman GONZALEZ. Little chunks.

Mrs. ROUKEMA. In terms of reporting a comprehensive bill, I know there are three.

Chairman GONZALEZ. Frankly, I think the whole thing will be in Ways and Means.

Mrs. ROUKEMA. Perhaps so. Perhaps so.

Chairman GONZALEZ. That is where you pay.

Mrs. ROUKEMA. All of the money? Follow the money; I am afraid you are right, Mr. Chairman.

Chairman GONZALEZ. Anyway, I wish you well in your deliberations on that committee.

Do you have a statement, Mr. Bereuter?

Mr. BEREUTER. Thank you very much, Mr. Chairman.

Returning to housing for a minute, I welcome Mr. Dunn from the Farmers Home Administration. I have had long contact with him, and have great respect for his ability.

I want to welcome Ms. England-Joseph as well. I never resist an opportunity to tell GAO I am not too enthused about their work in financial budgetary matters. I think they are lacking in objectivity and good research techniques; but with respect to housing, I have no complaints. I hope to pore over the details and your advice here very carefully.

I want to thank you, Mr. Chairman, for holding these hearings. Rural housing issues are of great interest to a district and State like my own. This subcommittee has been paying close attention to these issues as long as Mr. Gonzalez has been chairman, and that has been as long as I can remember.

I am pleased to see the administration's budget request for funding on the 502 Middle-Income Loan Guarantee Program has increased from \$750 million this year in program level to \$1.3 billion next year; and I think for a person just from the outside, we need to emphasize if you talk about \$1.3 billion next year for a program level, we are really talking about budget authority of only \$22 million in administrative costs. The default rate, as I understand it, as of February 16 of this year, is 1.56 percent, which I think is commendable—always room to bring it down, but very commendable.

The item I notice in particular is one that the chairman and the ranking member have already mentioned about the problems we are having in the 515 Rural Rental Housing Direct Loan Program. The numbers there are dramatically decreased. That is not a crucial interest to my district or State, but I think it will be of some substantial concern to many States, especially Southern States.

Of course, it is not unusual the budget request of the administration and this subcommittee, the appropriators are different. We see things differently. I hope these hearings will help us convince our colleagues that a consensus can be achieved.

I thank you again, Mr. Chairman, for holding these hearings. I, too, have another hearing at the Kennedy subcommittee I need to go to. I want to spend as much time as possible here.

Chairman GONZALEZ. I appreciate that very much.

Well, we will recognize Mr. Dunn, and again thank you for your statement. You may proceed as you deem best. You may wish to summarize or read from your statement and your prepared statement will appear in the record as you gave it to us.

We thank you again.

#### **STATEMENT OF MICHAEL V. DUNN, ADMINISTRATOR, FARMERS HOME ADMINISTRATION, U.S. DEPARTMENT OF AGRICULTURE**

Mr. DUNN. Mr. Chairman, I do appreciate the opportunity to meet with the subcommittee. As you indicated, this is my first opportunity to appear before this subcommittee. I am pleased to do so.

I will just hit the highlights of the testimony, as you have suggested. Hopefully, that will give us enough to enter into a discussion on.



The programs at Farmers Home Administration have contributed strongly to President Clinton's missions of strengthening the economy and improving the quality of life for thousands of people in rural America.

Median-income household income for rural areas is \$27,000. The average income of Farmers Home home buyers is \$16,700. Tenants renting apartments in FmHA projects make an average of \$7,932 per year. Ninety-eight percent of all tenants in Farmers Home multifamily housing projects are in a low-income category. Eighty-seven percent of the tenants are considered very low income. The average income of families living in Farmers Home rental housings is only 30 percent of the rural median income. Even though we can reach very low-income people, there are still those who have fallen on bad times and at least temporarily cannot afford our housing, even with rental assistance.

In the spirit of the President's Executive Order 12-848, Farmers Home Administration has been reviewing its ongoing programs to help prevent homelessness and exploring new ways to help homeless people where possible. We started a program whereby inventory housing not suitable for our regular program is rented or sold to nonprofit organizations. They, in turn, provide additional housing for the homeless. Presently, 109 properties are leased to nearly 35 organizations in 17 States.

This administration is going to enter upon a new old thrust, Mr. Chairman. We are going back to the original mission of Farmers Home Administration to provide supervised credit for the folks that we work with.

The majority of Farmers Home borrowers are hard-working, honest people. They try to pay their bills on time. When they cannot, it is sometimes because of the loss of a job, unexpected health expenses, or some other problem beyond their control. Delinquency rates are surprisingly low, considering the circumstances. The national single-family delinquency rate is 8.7 percent.

This administration is emphasizing supervised credit. Supervised credit means meeting with the borrowers even before the application is made; it means explaining the programs in detail, pointing out the responsibilities that go along with homeownership and providing counseling when necessary. Supervised credit also means establishing a rapport with the borrowers so they feel comfortable enough to come into the FmHA office when problems first develop, rather than waiting until it is too late. Farmers Home can and will provide additional subsidy payment, moratoriums for loan rescheduling, and do everything within our authority to help borrowers who fall on bad times due to circumstances beyond their control.

Our goal is to keep homeowners in the home by providing supervised credit, while protecting the interests of the taxpayers.

Mr. Chairman, we have set a goal to cut down on first-time delinquencies via the supervised credit mechanism. Currently, homeowners receiving assistance are required to make their tax and insurance payments directly to the insurance company and taxing authorities. We are in the process of establishing a mechanism for escrowing so that the tax and insurance payments can be paid monthly, along with a person's mortgage. Thereby, we anticipate a

substantial financial savings in administrative and accounting costs when we get that in place.

Currently, we pay \$20 million to pay taxes that our borrowers fail to pay. The present accounting system is antiquated and costly. The proposed system will be streamlined and much more effective. We are looking at implementing that by October 1, 1996.

Supervised credit in Multifamily Housing Programs means assisting developers, nonprofit groups, and others who in turn provide decent housing for many of the lowest income people. It means overseeing the operations and maintenance of established projects to ensure quality living to the tenants.

I would like to turn to the budget request. First, in the single-family housing area, the administration has requested \$1.8 billion for direct single-family housing loans. This will allow 28,800 new families to own their own homes and requires direct borrowers to contribute up to 30 percent of their adjusted income for housing. For guaranteed single-family housing loans, we are asking for a loan level of \$1.3 billion, an increase of \$550 million in guarantees and 8,270 units over fiscal year 1994.

Mr. Chairman, I would like to point out that our request does exceed the authorization level in your proposed legislation. We are requesting about \$35 million in housing repair loans to help fix up 7,400 homes for low-income people. We are also asking \$25 million in repair grants for older people who cannot afford a large enough loan to meet safety and health standards, and to repair health hazards in their homes.

And now for the multifamily housing budget request. For those rural residents who do not have the resources to purchase single-family homes, Farmers Home finances the construction of multifamily housing and provides rental assistance. Eighty-seven percent of those who receive this assistance have incomes below 50 percent of the area median. Most recipients require rental assistance in addition to the interest credit assistance provided on financing of the rental projects.

The high cost of the program has made it difficult to fund additional units of new construction. There are about 90,000 out of a total of 440,000 tenants in existing projects who are rent-overburdened in the sense they are qualified for rental assistance, but have not been able to receive it.

Our budget proposed funding for the Section 515 Program at \$220 million in 1995, but it increases rental assistance payments from \$447 million in 1994 to \$523 million in 1995. Again, Mr. Chairman, I would like to point out that that does exceed the authorizing limits in H.R. 3838.

We ask for funding of rural housing vouchers at \$25 million. These will allow us to fund some 5,270 units of new construction and provide rental assistance contracts on around 41,000 units, including 27,600 units for expiring contracts and 8,700 units for rent-overburdened tenants in existing projects.

Multifamily housing problems: Serious safety and health violations have been found in a number of Farmers Home-funded projects in Louisiana and Mississippi. There are indications that there may be problems in many more States. In addition, instances of apparent discrimination and Fair Housing Law violations have

been uncovered. We took immediate steps to overcome the problem, to determine how widespread it may be, and to see that it never happens again.

First, we made sure all repairs needed to meet safety and health standards will be made. We have taken over management of projects and are working through the legal system to gain control of others.

We are working with the Office of the Inspector General to investigate all instances of fraud, where fraud is suspected. Review teams are being formed in States where any problems appear to exist. An administrative notice has been sent to all State directors, instructing them to conduct a review of all multifamily housing projects in their States.

Two additional administrative notices are being prepared. One will give State directors instructions on denying transfers of ownership to any property with severe problems. The second notice will require that State directors investigate any possible civil rights violations and take decisive and immediate corrective action.

We are reviewing all of our legal and administrative authorities and remedies at our disposal to use when fraud, waste, or abuse is found. We believe some of these should be expanded to include such measures as civil monetary penalties.

As Secretary Espy put it, we will not allow misuse of government funds or mismanagement of government-financed projects. Our preliminary survey indicates there are only a small percentage of problem developments; yet, any abuse is unacceptable and all residents deserve safe, sanitary housing.

Mr. Chairman, I believe he echoed your views here. We cannot allow a few rotten apples to spoil the entire barrel. A major reorganization is taking place at the Department. Under the administration's Reinventing Government, under Secretary Espy's plans, the Housing Program would be included with other rural development activities. Legislation needed to authorize some of the changes is now moving through Congress.

Consistent with the administration's emphasis on supervised credit, a strong local delivery system will be maintained. Through the actual configuration of local offices still to be determined, the delivery system will be streamlined, efficient, cost-effective, and customer-friendly, with improved internal controls. It will use the latest technology available and reach out to those who need our services the most.

The congressional mandate to provide decent and safe housing to rural residents will continue to be carried out to its fullest. The reorganization is designed to strengthen those efforts, not to dilute them. Our commitment to you, Mr. Chairman—and to the subcommittee—is to provide decent, safe housing to those who have nowhere else to turn and to protect the integrity of all programs under our jurisdiction. We believe the new emphasis on closely supervised credit will go a long way toward achieving that goal.

Again, I thank you, Mr. Chairman, for this opportunity to share our views with you. I will be happy to respond to any questions you and the members of the subcommittee may have.

[The prepared statement of Mr. Michael Dunn can be found in the appendix.]



Chairman GONZALEZ. Thank you, Mr. Dunn. We deeply appreciate your excellent statement.

Ms. England-Joseph.

**STATEMENT OF JUDY A. ENGLAND-JOSEPH, DIRECTOR, HOUSING AND COMMUNITY DEVELOPMENT ISSUES, RESOURCES, COMMUNITY, AND ECONOMIC DEVELOPMENT DIVISION, U.S. GENERAL ACCOUNTING OFFICE; ACCOMPANIED BY ANDY FINKEL AND DENNIS FRICKE**

Ms. ENGLAND-JOSEPH. Thank you for giving me the opportunity to be here today to discuss H.R. 3838, the Housing and Community Development Act of 1994. As agreed with your office, I will focus my comments on aspects of the bill which GAO has either completed or is in the process of completing work. Some of this work has been carried out at your request, Mr. Chairman, and some has been performed for other requesters, who have given us permission to discuss it with you today.

Because this statement is based, in part, on ongoing work, some of the results we present are preliminary.

The aspects of the bill that I will discuss relate to: One, default prevention for Community Development Block Grant loans; two, the structure of and funding for the McKinney Act's Homeless Assistance Programs; three, the merger of the Department of Housing and Urban Development's Section 8 Tenant-based Certificate and Voucher Assistance Programs; four, the reamortization and refinancing of the Farmers Home Administration's rural housing loans; and five, the disposition and loan management of HUD's multifamily assets.

In summary, H.R. 3838 addresses a number of problems that we have identified in our past work. For example, it contains provisions that could reduce the potential for defaults or foreclosures in three government-sponsored loan programs—it would improve HUD's efficiency in providing assistance to lower income households by merging the HUD Tenant-based Certificate and Voucher Assistance Programs. It also authorizes increased funding for homeless assistance programs. This funding could help fill the gap between need and the programs' capacity to help the homeless.

Our work, however, has also identified several factors that the subcommittee should be mindful of as it considers this legislation. One important issue that affects both the proposed merger of the Certificate and Voucher Assistance Programs and the Homelessness Assistance Programs is how the programs can best be structured to meet the needs of program recipients while minimizing administrative burdens on HUD staff and program recipients. Furthermore, our work has pointed out the usefulness of congressional monitoring of both the Community Development Block Grant and HUD's multifamily loan programs to ensure that continued delinquencies, defaults, and foreclosures do not threaten the programs' effectiveness.

I would now like to discuss our work in each of the five areas I mentioned and comment on how H.R. 3838 would address the problems we found.

First, I would like to begin by discussing the proposal in H.R. 3838 to establish new grants to be used in connection with section

108 loan guarantees under the CDBG Program. We believe these new grants, together with improved monitoring, should help lessen the incidence of defaults on these guaranteed loans.

Several weeks ago, we reported on the CDBG Program in response to a request by this subcommittee in the Housing and Community Development Act of 1992. One thing we found is that the section 108 loan guarantees are important to local communities' funding of economic development activities, particularly for larger projects that require more funds than are normally available through CDBG grants. Unlike the CDBG grants, section 108 loan guarantees tend to be used by communities more for economic development than for other purposes.

As you are well aware, Mr. Chairman, defaults on CDBG loans have persistently been identified as a problem by HUD's inspector general.

H.R. 3838 could help reduce the likelihood of defaults on these loans by authorizing HUD to use unspent funds recovered from the Urban Development Action Grant Program to provide additional grants in conjunction with the Section 108 Loan Guarantee Program. These additional grants would likely help ensure the financial soundness of projects benefiting from the section 108 loans. Because section 108 loans tend to involve larger amounts and the local communities are responsible for repaying the guaranteed loan by using future CDBG allocations, defaults can have a seriously detrimental effect on the grantees' CDBG activities. We therefore recommended that HUD assist the Congress in monitoring the seriousness of the default situation by starting to include in its annual CDBG Report to the Congress data on delinquencies and defaults that it has begun to collect from grantees.

Our report also noted that CDBG-funded economic development activities, including section 108-funded projects, can play a significant role in helping communities carry out their economic revitalization strategies. However, without a comprehensive set of performance measurements, it is difficult to evaluate how effective these activities are.

Our report identified numerous measurements that a community can use to evaluate local economic development initiatives. We did not recommend that these be done because we believe they can best be done by local grantees. However, we did note that HUD has the opportunity to help grantees define the measurements that would serve them best.

Another matter that I would like to discuss concerns provisions of H.R. 3838 that would reauthorize and increase funding for the McKinney Act's Homelessness Assistance Programs. Within the next few weeks, GAO will be publishing the results of a comprehensive study on these programs that was requested by the Subcommittee on Housing and Urban Affairs of the Senate Committee on Banking, Housing, and Urban Affairs. This study assesses the local impact of McKinney Act programs via comprehensive case studies in the cities of Baltimore, St. Louis, San Antonio, and Seattle. The preliminary results from this work indicate that homelessness continues to be a serious problem that requires additional Federal resources.

Extensive input from a wide range of those involved in assisting the homeless led us to the inevitable conclusion that the need greatly outstrips the current capacity of available assistance programs. Both H.R. 3838 and the President's budget call for substantial increases in McKinney Program funding, which should help. However, experts were quick to point out that the McKinney Act programs should not be expected to make up for serious shortcomings in mainstream assistance programs for low-income people, which are supposed to form the "safety net" against becoming homeless. They believe the mainstream programs also must be expanded and made more accessible to the homeless to significantly improve the current situation. Our forthcoming report also notes the possible negative impacts related to the withdrawal of appropriations in fiscal year 1994 for the Interagency Council on the Homeless. While HUD is providing funds to a successor organization formed as a working group of the Domestic Policy Council, there is some question whether this group will be able to sustain the Interagency Council's former level of communication of information to the homelessness assistance community across this country. This is a function we believe will become increasingly important over the next few years as many McKinney program evaluations are completed and yield information on what service strategies work best.

I would like to turn to the proposed merger of the Section 8 Certificate and Voucher Programs contained in H.R. 3838. In 1989, we issued a report that advocated merging these two assistance programs and we continue to support such action. Moreover, others, including national organizations representing owners and housing agencies, have also urged that the two programs be unified, as has the administration. However, Mr. Chairman, several key issues associated with a merger would need to be addressed, not the least of which is the capacity of HUD and the housing agencies to effectively carry it out.

If the Congress decides to merge the two programs, whatever approach it adopts will require considerable effort on the part of HUD and the housing agencies. For example, the Congress could dissolve the Certificate and Voucher Programs simultaneously and require HUD to provide housing assistance for all households under the requirements of a new "merged" program. This approach would likely require a considerable short-term effort by HUD field offices to merge about 30,000 existing contracts with over 2,500 housing agencies and educate these agencies about new program requirements. The housing agencies would have to make considerable efforts to educate tens of thousands of housing owners and gain their acceptance of new program rules, educate about 1.3 million assisted households about new program requirements, and establish unified recordkeeping and accounting systems.

Alternatively, if the Congress adopted a gradual merger approach as existing housing contracts expire, as envisioned in H.R. 3838, HUD would be required to run three separate programs until existing contracts expired around 2003. This approach would exacerbate the difficulties involved in administering multiple programs for both HUD and the housing agencies, since it would entail three—instead of two—sets of program requirements.



Because a merger would likely require considerable effort by HUD to complete the actions mentioned above, policymakers would need to ensure that HUD's staffing was appropriate and was organized so that a merger could be successfully carried out with little adverse impact on the Section 8 Rental Assistance Program or on other agency activities.

As was mentioned by Mrs. Roukema, we have recently designated HUD as a high-risk agency, in part because of an organizational structure that blurs accountability, inadequate information and financial systems, and staff without the skills to effectively manage these programs. While both ours and OMB's designations of high risk are agencywide, given these historical inadequacies, HUD should be in a position to demonstrate that it can effectively carry out a merger before it is required to undertake it.

I would now like to discuss H.R. 3838's proposed amendment to allow the reamortization and refinancing of section 502 Farmers Home Administration housing loans. We began discussing this issue with housing advocacy groups and FmHA last fall and are currently working on a request from the chairman, Subcommittee on Information, Justice, Transportation, and Agriculture, Committee on Government Operations, of which Representative Thomas is the ranking minority member, to examine the extent of the problem and the budgetary impacts of allowing reamortization/refinancing within the program. Although we have not yet completed the budgetary aspect of our work, the preliminary results from our work indicate that the regulatory prohibition against reamortization/refinancing results in the customers of FmHA's Section 502 Program paying interest rates significantly higher than rates available to households in the private sector. The regulatory prohibition exists primarily because FmHA officials interpret the current legislation as requiring refinancing be counted as a new loan, and they do not want to limit the amount of new loans that could be made during the year.

We found that FmHA's portfolio of single-family section 502 loans has a large percentage of mortgages with high interest rates when compared to rates available to new FmHA borrowers or those available to households in the private sector. For example, as of September 30, 1993, over 75 percent of FmHA's \$18.7 billion portfolio, about 600,000 loans, was at rates of 8 percent or higher. As you know, the current mortgage rate available to Farmers Home borrowers is at 6.5; the private market is at 7 to 7.5. While many loans are receiving some amount of interest credit subsidy, over 400,000 Farmers Home borrowers with total unpaid principal loan balances of over \$6.4 billion are currently receiving no subsidy at all, including 14,760 loans paying interest rates of 13 percent or higher.

What we find is a way to readdress the way we can effectively help those borrowers. Refinancing should result in a decreased rate of delinquency and foreclosures and, obviously, an increase in households' disposable incomes, making the communities economically stronger. Reducing interest rates will reduce the number of FmHA customers who are receiving interest credit subsidies. In fiscal year 1993, these subsidies amounted to about \$600 million.

Reduced rates will also reduce the associated high servicing costs involved in performing interest credit checks.

In connection with the specific proposals in H.R. 3838, I have a few comments:

The regulatory prohibition against refinancing is in place because FmHA interprets the present legislation as requiring that re-financed loans count as new loans.

Any amendment to clarify refinancing/reamortization policy should specify the availability of the program to current as well as delinquent borrowers. Limiting an amendment to covering delinquent borrowers would create an incentive for current borrowers to become delinquent in order to obtain lower interest rates.

I would like to turn to multifamily loan management and property disposition. As we reported in 1993 and discussed with your staff, there has been an increasing problem with HUD's ability to dispose of and manage its inventory of multifamily properties and mortgages. H.R. 3838, as well as other bills introduced in the Congress last year, provides a framework for addressing these problems. In our view, prompt action on this legislation is needed. While the bills are similar in a number of respects, they differ in the extent to which they specifically require that properties be preserved after their disposition as rental housing for lower income families.

The number of HUD-owned properties and HUD-held mortgages has increased substantially over the past few years. Specifically, the HUD-owned property inventory increased from about 10,000 units to 31,000 units between 1990 and 1993. Another 38,000 are in the process of foreclosure. Since 1989, the number of HUD-held mortgages has increased by about 50 percent. As of July 1993, HUD held 2,432 mortgages. In addition, a substantial number of insured mortgages are at risk of default. In fact, in fiscal year 1992, HUD established a loan loss reserve of \$11.9 billion to cover estimated losses from its \$43.6 billion portfolio of insured mortgages.

Mr. Chairman, that is saying that 40 percent of your current insurance portfolio is likely to have serious problems.

H.R. 3838 contains several provisions that HUD believes are needed for it to more effectively carry out its loan management functions and reduce the potential for future assignments and foreclosures. These provisions are similar to those in S. 1299. Among the most significant provisions in the bill are those governing the sale of HUD-held mortgages. While the bills' provisions should help HUD improve the management of its HUD-held loan portfolio, given the serious nature of the problem, it is important that HUD's success in reducing delinquencies and avoiding defaults be closely monitored.

The growth in HUD-owned inventory stems from provisions in the Housing and Community Development Act of 1987 that require HUD, upon disposition, to ensure the goal of preserving many of the units in its multifamily inventory as affordable rental housing for low- to moderate-income people for 15 years. Specifically, HUD is mandated to preserve all units in "subsidized" properties and those units occupied by low-income tenants in "unsubsidized" properties.

To ensure that these units are available and affordable to low-income people, HUD generally uses a Federal rental subsidy program, known as project-based section 8 assistance. However, because of the limited amount of section 8 funds available to meet section 8 requirements, HUD has been unable to dispose of very many of these multifamily properties.

H.R. 3838, as well as H.R. 3400 and S. 1299, provides a framework for addressing the problems of HUD's disposition of multifamily properties. Each of these bills recognizes that the disposition of properties requires a careful balancing of several goals, including: One, protecting the Federal Government's financial interests; two, preserving housing so that it remains affordable to low-income people; and three, preserving and revitalizing residential neighborhoods. However, they differ in terms of the extent to which they mandate preserving properties and protecting tenants.

In his statement before this subcommittee on February 24 of this year, the HUD Secretary cited the importance of revising the current legislative requirements for multifamily property disposition. We agree with his assessment that the need for prompt action on this matter is critical. In fact, the problems we identified with HUD's multifamily property disposition and loan management was a major factor in our recently designating HUD as "high risk."

Mr. Chairman, this concludes my statement. I would be happy to respond to any questions you or members of the subcommittee may have.

I also would like to ask if two of my staff can join me at the table. Because of the number of issues we would like to address, we would like to be as responsive as possible.

[The prepared statement of Ms. England-Joseph can be found in the appendix.]

Chairman GONZALEZ. Please provide the reporter the names and titles.

Ms. ENGLAND-JOSEPH. To my left is Andy Finkel and to my right, Dennis Fricke, Assistant Director for our work in the affordable housing area and multifamily financing and also responsible for the work on vouchers and certificates.

Chairman GONZALEZ. Thank you very much.

I would also like for the reporter to note that Mr. Watt, Ms. Velazquez, and Ms. Furse, as well as Mr. Thomas, have shown and are present.

Thank you both for extremely helpful and informative reports.

On the first page, Mr. Dunn, second-to-the-last paragraph, you say, for instance, at the same time there are families with no place to live, Farmers Home has inventory housing that is vacant.

Well, that is a paradox that has always existed through the whole panorama of housing programs as far as the Congress is concerned.

Of course, we have been victims of a loss of memory, we have lost our historical memory in our country. Events 10 years ago are ancient history; I remember that even before—a time when we were supposed to have just absolutely unending prosperity—and I am talking about the late 1960's, the 1970's; and then, of course—the obvious to me—illusion during the 1980's that you had prosperity,



because it was all borrowed, and the country became a debtor nation for the first time since 1914, and in 1985.

It just seems that we cannot concentrate and even think, other than short-gap crisis response, and have no vision. It is as true now as it was ever since it was inscribed in biblical language that a nation with no vision is lost.

I recall these programs, for instance, that were advanced in lieu of, or to supplement, such things as public housing. You had your Turnkey Housing Program. That was advanced in the Senate as a substitute for public housing. Well, what that did, interestingly enough—and other programs, section 235, for instance, single-family—they were very good; but the paradox was that the—back home, the lower, middle—that is, the firemen, the policemen—were griping and saying, hey, how come this individual over here can qualify and buy a new home, and we cannot?

You have the same thing, for instance, in such things as the other corollary programs on the social side where there was health delivery, medical—Medicare, Medicaid, whatever. I found that what we had was these programs, and we had a host of them, particularly in the 1970's when the push was for grants without strings; turn the money over to the localities because they know best.

And I came through all those levels. I served on the city council; served in the State senate. It was a great joy to come to the national level and find that those problems we were trying to address on a local level—and nobody was about to respond to them—at least were being addressed on the national level.

So it was with great interest and concern that I saw the revenue-sharing. That was in 1972; that was the year that we had a deficit.

So my question was, what revenue are we sharing? Do you mean deficit-sharing? No, we are going to turn this money over to the municipalities.

I said, well, what will happen is that the local governments are going to use that money and you are going to find that an inordinate percentage of their operating budgets are going to be used with this money instead of their primary revenues—even fire and police, which is a basic municipal function.

Well, sure enough, in my own hometown, by the late 1970's, the middle 1970's, 17 percent of its operating budget was coming from the revenue-sharing.

So finally, the Congress abolished that with a great deal of pain from some sections. If you were well off, you did not have to have a program. You could buy a home; you could get the medical service, the hospital service you needed.

But if you were very poor, well, we had some programs that addressed it. But if you were in the middle, the paradox was that you were caught.

So this is very interesting. I am particularly interested in knowing how many families do we find in the rural, that are homeless, and can find no place to live—and what is the type of inventory of the housing that is vacant?

Because on the HUD side of things, in the urban areas—and I am talking about outside of the dense, dense urban areas, where it's entirely different—there our country is a rental, leasing coun-

try. It is not homeownership like it is in over two-thirds of the other parts of the country. There I found, yes, we had a big inventory of new housing, but the cost was prohibitive.

I mean, it was housing built in the good old days when builders would expect anywhere from 20 to 30 percent profit. All before that period of time, the usual—in fact, if they could get 10 percent, they were doing very well. The housing that was provided to attack the shortage, which was immense during the war years, immediately after the war, the builders were lucky if they could get 10 percent. They didn't expect to get more than 10 percent. But then everybody got greedy during this period of time.

Now, I am interested in knowing, what is the relative size of that inventory of homelessness in the rural areas, fully defined as rural. And what is the inventory of vacant housing and its characteristics?

I don't have to have that now. If you could provide it, I would be most grateful to you.

Mr. DUNN. Mr. Chairman, I can tell you that our current inventory of homes is 3,288 in the rural communities.

Chairman GONZALEZ. All right.

Mr. DUNN. I think you make an excellent point here about these homes. This is one of the reasons why we are trying to provide supervised credit. It occurs to me that we would be much better off if we could find a way to keep people in these homes rather than to have them vacant and thus have another unit in our inventory; and that is the direction that we were going.

I was most interested in the General Accounting Office's account of where we ought to be on refinancing, because that does give me a great deal of concern that we do have loans out there that far exceed current loan rates; and we are stymied, not able to provide low-income, moderate-income people the same type of affordability.

We are like the loan shark. We are charging more than the banks are.

Chairman GONZALEZ. Well, in fact, we have become a usurious nation. We have become a nation of loan sharks.

The reason is simple: The country from its beginning—you speak about credit allocation, or affordability, whatever word you want to use, that has been the prime question since the beginning of our nationhood. That was before the adoption of the Constitution.

From the very beginning, the First Continental Congress, the Second Continental Congress, then the Confederacy. The question then was prime; that is, who is going to control the allocation of credit?

When the First and Second Continental Congress then later attempted to try to do something governmentalwise in the formation of our Nation—everyone has to have a banker, including bodies such as the Continental Congress. So the Philadelphia banks, which is where they were meeting, said, well, we will supply credit, but this is going to be our interest.

You had great minds then. You had Jefferson. If you want to see real bitter descriptions of bankers, read Thomas Jefferson. He absolutely stood firm and said, by no means, we are not going to pay more than 6 percent. They capped it. The bankers came in and loaned.

Now, the big question in our time—that may be a beginning. How did we finance a world war, World War II? Franklin Roosevelt never paid even an average of 2 percent.

Now, how could that have happened, and then we reached the point where Treasury has been paying as high, in some instances, not too many years ago of 16 percent on long-term money or bills, bonds.

Well, there are reasons for that. Of course, this is not the forum for it. I tried to bring it out, but nobody is really listening. It just seems we have to wait until we are in a crisis. Then, of course, crisis reaction is not the best time. I always believed in anticipatory actions.

So I wanted to compliment you on your definition and your grasp and your articulation of addressing this by what you call a credit—what was the word you used?

Mr. DUNN. Supervised credit.

Chairman GONZALEZ. Supervised credit. Well, no matter how you supervise it, you still have the golden rule; that is, he who has the gold, makes the rules. He who lends—but if that is not controlled—and we haven't had to because the Nation had 6 percent national interest caps until 1865, after the Civil War, the National Currency Act; and since 1865, since then, we have not.

However, you had State provisions until the 1970's when, under the pressure of the Federal Government in such programs as FHA and veterans programs that went as high as 10 percent, 9 percent, then I think the only State that still has some residual interest controls are—usury laws, antiusury—is Arkansas.

The bankers everywhere, including my State of Texas that had the long-time constitutional provisions, restricted the rate. They did it because they said, well, we will not have availability of lines of credit unless we do. Well, somehow or other Arkansas survived. There may be some question on how it survived, but it did. And they have had—despite all the current hullabaloo, they have had very successful financial enterprises.

Coming back to this particular issue, I wanted to compliment you. I think you have really got a hands-on approach—and I have specific questions I will give you in writing for the record so that we can go down the line and work together.

The administration, the Secretary of HUD, is preparing—he has been delayed in preparing their authorization legislation. We want to make sure we dovetail when they do.

Now, we ourselves, I had anticipated having our package not later than when we opened this session on January 25. We were not able to do it until February 10. Therefore, we want to move. I have a target date. We have to get this up. We have to extend all these affordable housing laws; they all expire this year. That is the first and prime intention.

So I wanted to thank you for your very seminal and very hands-on, innovative approach. I compliment you.

I will have specific questions.

[The information referred to can be found in the appendix.]

Just briefly, I was going to ask, Ms. England-Joseph what was this white paper that I saw in the mail yesterday and did not have the time to look at, because we had a very lengthy markup session



yesterday? I believe it was entitled "Homelessness." Is that a preliminary study or report, with what you just referred to?

Ms. ENGLAND-JOSEPH. Yes, sir. What we provided you was a summation—

Chairman GONZALEZ. OK.

Ms. ENGLAND-JOSEPH. Of the basic findings in that report. It is currently in draft and should probably be issued in the next 30 to 45 days.

Chairman GONZALEZ. I noticed it was white and not the blue report.

I am sorry. I regret I couldn't get to it.

Let me conclude by saying this. In another way, we have gone from bad to worse. We have continued what I call taking from Peter to give to Paul, but ended up robbing both Peter and Paul. That is where we are today, really. But it really started during the 1980's. I think this is the big danger in the administration's budget.

I was going to ask this, Ms. England-Joseph, this question about the inability to refinance section 502 single-family loans. My question is, is that because of regulation or because of the budget or OMB restrictions?

Ms. ENGLAND-JOSEPH. It is my understanding it is primarily regulatory. Language probably needs to be clearly stated in H.R. 3838 that would encourage, or at least let Farmers Home know the concerns of this subcommittee about the need to not use just existing loan funds perhaps as a way of refinancing or reamortizing those loans.

Chairman GONZALEZ. That is what I had in mind when I said, that is taking from Peter to pay Paul, and we end up shortchanging both.

What I am not too clear about is whether that is a mandated budgetary or OMB directive?

Ms. ENGLAND-JOSEPH. Of all the work we talked about with you today, the work we are doing in Farmers Home is probably the most preliminary and the budgetary issues are ones we still need to work on.

However, the kinds of things we are seeing now would indicate that if you were to reamortize these loans rather than to create new loans, the costs associated with closing costs and others would not be incurred.

In addition, the way in which Farmers Home actually manages and services these loans, particularly the constant need to assess individuals' incomes in determining the interest subsidy, the costs associated with doing that probably could be precluded or prevented in the course of refinancing or reamortizing these loans.

So there are other associated costs that probably could be saved or where Farmers Home could become more efficient if they were to do this.

Chairman GONZALEZ. Well, I appreciate your statement and the recommendation. We will, as we go along into these hearings, and markup, eventually—and I hope it will not be too far off on the bill, that we will clarify. It may require statutory clarification, it may not.

I appreciate your input on this. It helps us very much.

I might also mention that this subcommittee—the full committee has jurisdiction on Farmer Mac. We have had very disturbing reporting there. That has to do with the other side, that the Department and the Agriculture Committee in the House has full jurisdiction; and that is on the business, or the forming of ownership itself, in its obtaining the line of credit. But it is directly related to what is happening out in the rural areas and the rather high incidence of repossessions of farms.

The troubling thing is that with the syndication of a lot of this paper—and this subcommittee has not yet gotten into that, but we do have the responsibility of overseeing Farmer Mac, so I thought I would mention that to you in passing. We may revisit that when we get to that kind of hearing.

Mr. Bereuter.

Mr. BEREUTER. Thank you, Mr. Chairman.

Ms. England-Joseph, as you may have noted, Congress has thrown an extraordinary amount of money at the homeless problem in a helter-skelter fashion involving many committees of a few years ago. It appears that an extraordinary amount of waste and inefficiency exist in the homeless programs.

How bad is the program? What cities and regions are the worst in their management of the resources given them?

Ms. ENGLAND-JOSEPH. None of the work we have done most recently has been addressing the possible waste and abuse you are referring to. Most of the work we have attempted to do recently, by request, has been to understand better how monies could be more efficiently and effectively utilized at the local level.

So the work I was referring to in my testimony essentially was intended to figure out, how could we streamline, how could we better provide what limited resources we do provide to communities.

Mr. BEREUTER. How can you possibly do that if you do not know where the waste, the fraud, and the abuse is? How do you streamline if you do not examine the problem and identify it?

Ms. ENGLAND-JOSEPH. One of the techniques we used in our methodology was to understand it from the customer's or client's perspective or the service provider's perspective. Perhaps we could call this waste—perhaps—but the fact that so many of the local communities and nonprofits feel that the number of programs that they have to deal with, the number of applications, the different types of requirements associated with the numerous types of programs that exist out there are costly.

So I guess, from that standpoint, there is an issue associated with perhaps unnecessary waste or unnecessary duplication. That is a very difficult matter to cost out.

Mr. BEREUTER. What would cause you to turn your head from the side and look directly at the problem? A formal request would cause you to take a look at the waste and abuse in the homeless programs today?

Ms. ENGLAND-JOSEPH. One thing that I think would be very useful—

Mr. BEREUTER. How do we get you to focus on it so this national scandal can be brought to the attention of the public?

Ms. ENGLAND-JOSEPH. Certainly, by a request, we could focus our review to look to that issue. Very little of what we have found so

far, quite an extensive amount of work, would be any real examples or indications of fraud.

We are not hearing the kinds of examples of fraud and abuse that you are alluding to. So if the subcommittee and subcommittee staff are familiar with those types of examples, that would be extremely useful for us.

Mr. BEREUTER. What would it take to get you to conduct such a study? A Member request? Is that sufficient to get you started on it?

Ms. ENGLAND-JOSEPH. Certainly. I would like to see if there is more information behind what you are requesting so that would help us focus most directly to what you need done. The more information that you might already have, that is the basis of your concern—

Mr. BEREUTER. I just want it illuminated. I want public scrutiny on it, so we can determine how to go about correcting that inefficient use of resources.

Ms. ENGLAND-JOSEPH. One difficulty we might have, sir, in doing that in the midst of major reform in these programs would be to determine when do we look at it? The way in which it is designed today? The way is it likely to occur out of legislative activity in this Congress?

So that is something else I think we want to work with you and your staff to make sure we are clear about.

Mr. BEREUTER. Moving to the next point, I notice you quoted or at least used the same words practically that Mr. Bowsher has indicated with respect to HUD—one of the reasons why it was designated as a high-risk agency—HUD has a staff without skills needed to effectively manage programs.

Why is that the case? What, in essence, is the problem with HUD in its management capability, the competence of its people to manage programs? Why has it been a continuing problem administration after administration after administration? We bring in good top leadership, good Cabinet-level people. They bring in good people with them. And yet we have this problem which I think Mr. Bowsher has correctly identified.

Ms. ENGLAND-JOSEPH. There is no one problem I can point to. What I can say is that over the last many years since the time HUD was first established, it suffers from a number of different missions. I think the lack of clarity in terms of mission contributes in large measure to their inability to perform the tasks at hand.

Also, over the course of the last 15 years, you have seen a dramatic decline in the number of resources HUD has. One of the things we are looking at now is whether there is actually a relationship between the decrease in staff, meaning full-time equivalents, and whether there has been a complementary increase in the number of consultants and contractors, something that is difficult to get a handle on in HUD right now because of their lack of information systems.

I would say the declining resources and commitment from a budgetary perspective, the requirement to consistently cut, the application of more and more new programs that defuse their ability to have the kind of expertise they need to focus directly on that which is most important. Finally, when I talk about mission dilu-



tion, a mixture of missions is the whole struggle in HUD that I see on the side of social responsibility and trying to serve many different types of needs in the community and in the country and balancing that with a fiscal or financial responsibility of being such a large financial institution in this country.

So those things constantly come at each other in ways that I think are extremely difficult to manage.

Mr. BEREUTER. Thank you for that attempt to answer.

Chairman GONZALEZ. If the gentleman will yield, I won't detract from your time—

Mr. BEREUTER. I will be pleased to yield.

Chairman GONZALEZ. I was here at the creation of HUD and had a lot more than just a passing interest—because I have been a member of this subcommittee since I came to the Congress 32 years ago.

I don't think it is fair to say that from the beginning HUD—President Kennedy attempted twice to create HUD and failed; that is a very little-known bit of history. There was resistance at the congressional level. It took his death—of course, it took his death to trigger a lot of other things.

In 1965, Lyndon Johnson brought forth the recommendation to create HUD. The main idea was to bring in these disparate—all the way from the FHA Commissioner to the Public Housing Commissioner to the Urban Renewal and then, of course, to other areas.

Then in the 1970's, when you had the creation of the secondary mortgage institutions—Freddie Mac, Fannie Mae and, above all, Ginnie Mae—Ginnie Mae was appended to HUD. Then, last Congress, we revved up a little bit more on HUD's overall or overarching jurisdiction among Fannie Mae and Freddie Mac.

However, I think the point to make is that the first—what—the first 15 years of HUD, you did not have any scandals. You had a lot of change in the Secretaries; the first Secretary was Bob Weaver. Then you had the Nixon administration's George Romney; and then he didn't stay too long. You had everybody else from the lady who became more recently the Trade Representative and all the way to the Carter administration and the former mayor of New Orleans, Moon Landrieu, but you did not have the scandals.

In your FHA Commission days, you didn't have the scandals that you had in the 1980's in HUD.

If you examine, you will find what Ms. England-Joseph says is very true. The inspector general reports were for the last 2, 3 years; in fact, the Secretary, when he was here 2 weeks ago, mentioned that HUD continued to be on the crippled list. It has been for some time, but that time goes back to the 1980's.

If we look before that, we didn't have the so-called scandals. Why? Because there was a detachment from the administrative responsibility and the accountability of that administration; and then every one of the inspector general's reports we have had—in fact, we had him here last year and more recently, and the underlying point is because of the inadequacy of staffing—first, inadequacy, number of staff; and second, the expertise in preparation of that staffing, you can expect some things happening that should not be

happening, particularly in those areas of need for expertise, disposition, and the like.

So the inspector general has laid it out, but we in the Congress are not going to invade. We are caught constantly between the desire to encroach on the executive and the desire to abdicate congressional responsibility and throw it over on the executive.

I, as chairman, before I became chairman, have constantly been confronted with those decisions. When you withdraw—and that was noticeable in section 235, when Mr. Nixon was elected and re-elected, and he announced between his reelection and the beginning of the new Congress that he was going to eliminate 235, because you had scandals in some areas, in Chicago, up in the Middle West.

But over in my area, 235 worked great. Beautiful. Because the local administrator had the sagacity to move personnel out to counseling these new home buyers. Over in these other areas, where you didn't, you had a lot of misdoing; that is true. But for whatever reasons, the money was withdrawn and, in fact, the program was eventually going to be doomed.

But the reason there was the withdrawal from the commitment at the same time that it was inaugurated under George Romney's term of office, he announced a 10 percent across-the-board decrease in personnel.

That is why I am very, very apprehensive about this new goal that the Vice President has announced and the Congress has embraced and everybody is talking about, reducing the Federal Government of 252,000 personnel. These across-the-board magic numbers have never, never, in my judgment—even back on the city council we had the same thing the first year I was there. The idea was, if you cut, you had economy. Well, I found that it could be false economy, that real economy was making sure the taxpayer got 100 pennies of that tax dollar for the purpose it was intended.

That is the efficient working of the program. If the program was not working, you cut it out.

I saw that from the very beginning on the city council. We had a lot to do; a review, they cut out. Three years later, the taxpayers had to ante up \$40 million to make up for that shortsighted, false economy.

I appreciate the gentleman yielding to me. I would not cast judgments overall. I think at this point and beginning with Secretary Kemp—the bill we passed on his recommendation addressed the problems that grew up immediately preceding his term. But when this new administration took over, I saw with quite a bit of concern the Secretary's announcement less than a month after he had taken office that great things were wrong at HUD and had been, implying that whatever the previous administration had done by reform had been inadequate.

I discussed that with the Secretary's Assistant and said, look, I think that was not wise because you say everything is wrong, and you are going to reinvent—well, my gosh, that is great and all. But a year from now, unless you target what you say is wrong and you address that right away, a year from now everybody is going to forget that the thrust of your message is this happened before you; and it is your baby. And that is where we are today, Mr. Bereuter.

Mr. BEREUTER. Thank you, Mr. Chairman, for the lessons from experience. I differ with you a little bit with respect to the 1970's. I think the major decline in competence began in the 1970's. I saw it from a different perspective. It certainly accelerated in the 1980's.

I am quoting Mr. Bowsher's words that we have a management problem there. If we could take the 200,000-person cuts and not apply them across the board, but apply them to the least competent people in the administration, that would be a better way to proceed if we just had that wisdom.

It may be a government-wide problem, but I recall when we had in the Omaha office of HUD a person who was incompetent. They documented it in every conceivable way. He was close to illiterate, if not illiterate, and they could not get rid of the person, but moved him to Kansas City.

I don't know how big a problem that is, but it does not do much for morale and for generating good performance around him.

I would like to move to the Farmers Home Administration and ask you, Mr. Dunn, with respect to the Rural Rental Housing Program, section 515, we have seen discussion of the problems—and you addressed them yourself. Two questions, quickly, and then I will move to a third area.

What means do you have available to collect from developers who abuse the program? What kind of legislative assistance, if any, do you need to recoup those losses from developers?

Mr. DUNN. Mr. Bereuter, what we have done is to take a look at it. In the background information I provided for you is a list of initiatives we are going through to try to make collections in there. We also have legislative agendas in there. That is in your packet of material.

Mr. BEREUTER. I will read that.

Mr. DUNN. I provided for you also a case study of one such effort. It is in the large book we provided for your enjoyment some late evening.

Mr. BEREUTER. I didn't realize that was there in detail.

Mr. DUNN. We are meeting with the Office of Inspector General and of OGC and putting together a team, helping to train our personnel. Then where we go in to inspect these units, we can get the body of evidence on those folks that are guilty of the fraud, waste, and abuse. We will have a case to give to Justice, to take them to court.

We will also be looking for civil damages legislation.

Mr. BEREUTER. Good. Section 502, the Loan Guarantee Program, I am enthused about the growth. I have been interested in it since we began it. I notice with respect to allocation, number of loans, so on, it is a very different record across the country.

Texas, that may have about as many rural residents as anyone would see. You agree with that. They had an allocation which was the largest of all. The program just has not gone anyplace there, 7.6 percent of its funds allocated.

States like Tennessee, which has a rural population—nothing approaching that of some of the other States—you have a record where they are using 105 percent allocation, getting started there well—seems to be starting well.



In Florida, Georgia, North Carolina, in some ways.

In my State, where it is needed, it is mediocre at best.

North Dakota, one of the lowest income rural States, is not going anywhere at all.

What is the difference between why it works in some States and why it does not? How much depends upon leadership within your State offices of Farmers Home Administration? What is going right in Tennessee, for example?

Mr. DUNN. There is a good portion of it on leadership, Mr. Bereuter. I think you are correct. What this administration has done is to get these State directors together. Every time they get together, we ask them to bring their two most innovative ideas of how they are doing, performing better, and exchange those with the other State directors. That way, we can take Tennessee's experience to Nebraska, and say, here is an opportunity to better utilize it.

But let's look at this guaranteed program. What you are talking about is this is skewed to higher income folks than our normal 502 Program.

Mr. BEREUTER. Low middle and middle income?

Mr. DUNN. Yes, sir.

Mr. BEREUTER. Working with bankers, I assume that is part of it? You have to have their cooperation?

Mr. DUNN. Yes.

Mr. BEREUTER. Are there other answers?

Mr. DUNN. That would be two that come to mind. We will certainly review those and get you a full report.

Mr. BEREUTER. Texas, Mississippi, certainly have a great many very low-income people. It is not being used there.

Look at Georgia. They are using it well. They have a lot of low-income, rural people. There is something happening in those States.

Mr. DUNN. Again, very low-income people would have a hard time qualifying for straight guarantees.

Mr. BEREUTER. I think when you have very low, you also have people in low-middle that are just above that 80 percent cutoff point.

I would appreciate it if you would examine and do what you can to encourage a more consistently positive use of the program across the whole Nation.

Mr. DUNN. We will.

Mr. BEREUTER. Thank you very much.

Thank you, Mr. Chairman.

Chairman GONZALEZ. Thank you, Mr. Bereuter.

Mr. Watt.

Mr. WATT. Thank you, Mr. Chairman. I just had a few questions. Was that a vote bell that just rang?

Chairman GONZALEZ. That was a vote bell. It was a first bell.

Mr. WATT. I will try to do this as quickly as I can.

Chairman GONZALEZ. OK.

Mr. WATT. Let me go to Mr. Dunn first. I understand you are having problems in the Section 515 Program. But a concern that I have, looking at your budget request for that program, which—correct me if I am wrong—would reduce the level of funding from \$540 million in 1994 to \$220 million in 1995?

Mr. DUNN. That is correct, sir.

Mr. WATT. I am concerned about why that is and particularly concerned that the problems in the system may be driving you to reduce the budget for a program that is good, which you all have encountered problems with the administration in some ways, and then the program starts to suffer because of the administrative problems.

Are we throwing out the baby with the bathwater, I guess is the old-fashioned way of saying that?

Mr. DUNN. The Congressman makes an excellent point. This reflects purely budgetary concerns. The cost of the 515 Program, because it is a 50-year loan, is very high; it is almost like 57 percent. So it is a very, very costly program.

What we looked at is how could we help more very low-income people, and what we found was we had a great number that needed rental assistance to be able to stay in units or to get into units that we currently had available. So there was a decision that we would put more money into that because that would assist those very low-income people.

However, the result was that we dramatically cut back on the number of new units we were going to build.

This is exacerbated by what we have found as we go out and find deteriorating units, because what will happen there is, we will have to use that money that we have requested to rehab those units so that they become safe, sound, and standard.

So that could cause some problems in the upcoming year.

Mr. WATT. You are saying even the \$220 million is more likely to be used for rehab than for new units?

Mr. DUNN. That is a very good possibility, sir, as we go out and uncover some of the problems we have found as we begin looking at these units.

Mr. WATT. Do we not need additional units? Is that why we are cutting the funding?

Mr. DUNN. We have a request in the pipeline, I believe, of \$1.8 billion for new units. Certainly, there is a demand.

Mr. WATT. We have those funds already allocated?

Mr. DUNN. No, sir, we do not have those funds allocated. That is what we see in the pipeline of an additional request for 515 units.

Mr. WATT. OK. How are we going to finance that pipeline request?

Mr. DUNN. Very slowly.

Mr. WATT. I take it for each one of those units, there is somebody waiting to occupy. How we are going to house those people?

Mr. DUNN. You raise an excellent question, Congressman. We have asked for additional voucher units. If there is decent standard housing available, we could utilize those. But certainly, the need and the demand for these programs far exceed the resources that we have.

Mr. WATT. At the same time, it appears to me from reviewing the budget information that you are asking to go on this Single-family Guaranteed Program from \$750 million in 1994 to \$1.3 billion? That is a 79-percent increase? Does that mean we are shifting our

emphasis from providing safe rental housing for people to homeownership? I mean, have we changed our priority?

Mr. DUNN. That is again, sir, a budget driven decision because of the low delinquency rate Congressman Bereuter talked about. We do see that costing less.

Mr. WATT. So that program is being rewarded because it is run more efficiently and has less delinquency in it? The Rental Program is being punished because it is run less efficiently? It has nothing to do with the merits of the program, I take it.

Mr. DUNN. The demand is there for both programs. The cohort for the cost on the 502 Guaranteed Program is 1.7 percent versus 52.5 percent for the 515 Programs.

Mr. WATT. But everybody cannot afford to buy a house, Mr. Dunn. I think the point I am driving at here is while I would like for everybody in this country to own a house also, it is the American dream, but for most people it is the American nightmare, I will tell you, because they cannot afford to realize the dream.

Mr. DUNN. The Congressman is not going to get an argument on that one.

Mr. BEREUTER. Will the gentleman yield? I want to say to the gentleman, I don't know if you were here before, but I pointed out the expected budget authority for that \$1.3 billion is only \$22 million. It advanced from \$12 million this current year expected to only \$22 million. There is not much budget, laying out dollars budget authority. That is because of the low rate.

I thank the gentleman for yielding.

Mr. WATT. You mean in terms of—this is guaranteed money rather than actual outlay money, is what you are saying?

Mr. BEREUTER. Correct. The actual default plus administrative costs for next year are only projected to be \$22 million.

Mr. WATT. That is interesting. The information I have is we are going from \$750 million to \$1.3 billion. That is a lot more than \$12 million. Maybe somebody can explain that to me.

Mr. BEREUTER. If the gentleman will yield a second. The amount to be guaranteed this year is \$700 million. The amount to be guaranteed is \$1.3 billion. But the outlay only jumps from \$12 to \$22 million.

Mr. WATT. All right. I think I understand that.

Well, I guess I am pointing this up more for the record than I am for getting an argument from you. I assume you are on my side of this issue.

But it is the agency's budget that we are proceeding on. I would assume that that reflects the agency's priorities in this area. If you send the budget over here that cuts anything, or proposes to cut anything, I assure you it will be cut. It probably will be cut if you do not propose to cut it; but I assure you it will be cut if you propose to cut it.

If that is out of step with your priorities, I would say that maybe you ought to send us a budget that is reflective of your priorities.

Mr. DUNN. Congressman, priorities of the agency go hand-in-hand with the priorities of the Nation as a whole. The President has need for deficit reduction in order to keep low interest rates and other things which are resulting in those types of cuts. What we have presented here is based upon budget outlays or budget au-



thorities on the actual costs for the \$1.3 billion we are talking about in the 502 Program; it actually costs us \$22 million.

For the \$220 million for the 515 Program, it costs us \$115 million. That is where we run into the problem. So we are looking at how do we provide the most assistance for the most folks with the best mix that we can provide given the national priority.

Mr. WATT. I am almost afraid to ask my next question. If there are problems in the administration of the Rental Program, for which we put out hard cash dollars, do we have some assurance there are no problems in the administration of the Guaranteed Program for which we do not put out hard cash dollars today, but if there are problems in the equation, the Federal Government will be expected to put out hard cash dollars for in the future? Are we satisfied, are you satisfied that the level of problems that exist in the Guarantee Program are not parallel with the level of problems that exist in the Rental Program?

Mr. DUNN. I cannot tell you—

Mr. WATT. Please, don't hesitate in your answer to that. It troubles me when you hesitate.

Mr. DUNN. That I am absolutely confident in the authority of what is happening here. I know what I have found, what I have observed in the few short months I have been Administrator. Frankly, we were appalled with what we found in the 515 Program, in health, safety standards, apparent civil rights violations. It is intolerable. I will be asking our staff to look at it in the single-family as well.

That is not what this government is about. That is not what you pass legislation for. And that is not what the Clinton administration will be for.

Mr. WATT. You understand the point I am making? It is if there are substantial problems parallel or equivalent to those in the Rental Program, in the Guarantee Program, this temporary situation where we are outlaying only \$12 million for what appears to be a substantial, substantial increase is temporary? It will not be permanent? At some point we will have to pay the piper?

Mr. DUNN. If there are those problems.

Chairman GONZALEZ. If the gentleman will yield, we may have about 2 minutes or so left on this rollcall vote.

If the gentleman still feels he has questions, I would like to ask—

Mr. WATT. I have many more. I will defer and may submit them in writing.

Chairman GONZALEZ. If you wish, we can go and vote and come back.

Mr. WATT. Not unless you are planning to do that anyway. Do not do it for my sake.

Chairman GONZALEZ. I have a couple that I think I would like to ask here. So if the witnesses will be patient with us, we will recess briefly to go register our votes and come right back.

[Recess.]

Chairman GONZALEZ. We will return to order.

Mr. Watt, do you want to continue your line of questioning?

Mr. WATT. Thank you, Mr. Chairman. I think we probably have gone about as far as we can go on that particular line. I did have

one other question of Mr. Dunn before I shift horses to the other witness.

I believe you indicated that in answer to Mr. Bereuter's question that you currently have 3,288 homes in your inventory?

Mr. DUNN. Yes, sir.

Mr. WATT. I was looking at the top of page—actually bottom of page 1 of your testimony, last paragraph. You say in an effort to get the homeless and our vacant housing together, we have started a program whereby inventoried housing not suitable for our regular program is rented or sold to nonprofit organizations.

Tell me a little bit about what it means to be "not suitable" for your regular program.

Mr. DUNN. That may be a home that is too large to maintain and heat. It may be some we have gotten from some of our other programs; farm programs, for instance, that we would end up with in inventory.

I am glad you brought this back up, because Secretary Espy has asked us to put together a special initiative to ensure that we get as many of these houses out here as we can. They will be of a standard nature. They will be well maintained. We are looking at contracts with nonprofit organizations, community-based organizations to be the intermediaries there.

Mr. WATT. The point I am trying to get to is, does your agency have a specific program under which your inventory can be converted to homes for homeless people? Or is this something that you all are kind of bootstrapping, putting together as you go along?

Mr. DUNN. We are taking the cue from the President's Executive order and Secretary Espy has asked us to put together a special program for these.

Mr. WATT. Will that require any legislative action?

Mr. DUNN. At this time, it is simply going to be regulatory changes.

Mr. WATT. Mr. Chairman, do you know whether HUD's program is legislatively sanctioned? Does HUD have a similar program for converting some of this inventory to homeless or disposing of that?

Chairman GONZALEZ. Yes.

Mr. WATT. Is that—

Chairman GONZALEZ. Statutory.

Mr. WATT. Why would we not have a similar kind of program for Farmers Home?

Ms. ENGLAND-JOSEPH. Mr. Watt, I can answer that question. We actually have a report I will get to you this afternoon that we issued probably about 6 months ago on foreclosed properties across government which included HUD, Farmers Home, VA. In fact, Farmers Home does have a very small Foreclosed Property Program in order to set aside housing for the homeless.

Your question about the issue of substandard or not meeting certain standards, actually what we found in our work was not so much a size issue or a structure issue in terms of being too large or too small; it actually was a quality issue. If it was low enough quality, it would not move quickly to the foreclosure process and be sold in the open market.

So there were issues associated with the ability to get those properties set aside and made available to nonprofit organizations—to the homeless, specifically.

Mr. WATT. So we take the worst of our housing basically and try to get the nonprofits to rehab it for homeless people?

Ms. ENGLAND-JOSEPH. Essentially, that is the case. I think there probably is some quality—appropriate quality housing that is part of this set-aside or whatever you want to call it, the way Farmers Home wants to call their program. The big point with Farmers Home is because of their low default rates and therefore their low foreclosure rates, they do not have that many properties. The largest number of units available is with HUD.

Mr. DUNN. Mr. Watt, lest you be misled by that term, that does not mean they are substandard; the houses are brought up to standard before they go. It means we have had them for an exceedingly long time on our rolls, and so forth.

Mr. WATT. I am not being critical. I hope you do not take any of these questions to indicate I am being critical of your program. What I am more interested in is trying to see whether there is some way to increase the number. I mean, if you look at the top of page 2, you have only 109 properties that—across 17 States and 35 organizations involved in this or trying to be involved in it. It just seems to me there might be some way we could, if we had some legislative or statutory sanction for what you are doing, help in making more properties available.

Mr. DUNN. We would be delighted to meet with the Congressman. We have given the Secretary three different options of ways he can go on this. One we have presented for him we can do regulatory; he is very anxious to get these housing stocks occupied. We are probably going to go with that, but there are the other two that may need legislative change.

In addition to that, in your section 816 of H.R. 3838, there are monies made available for rural housing.

I think you have grants authorized for some \$32 million for the next fiscal year. Those are currently designated to go to HUD.

Mr. WATT. Let me just briefly, Mr. Chairman, if I can indulge you just a minute or two longer, ask Ms. England-Joseph a question that follows up on Mr. Bereuter's line of questioning.

If I may find the right place, in answer to one of Mr. Bereuter's questions, you indicated that HUD over the years has had a number of changing missions; and one of the concerns I have is that one of those changing missions now which HUD really has no experience in training to deal with is the one that is referenced on page 14 of your testimony. That is the similar situation to Farmers Home.

HUD now has 31,000 units in its inventory; and in addition, you have 38,000, or HUD has 38,000 more units in the process of foreclosure and it has 2,432 mortgages which it is holding—I assume that that is in addition to that; so we are talking about over 70,000 units that it seems to me HUD has really no training or experienced personnel or background in really managing or dealing with these properties.



Can you give us kind of an update on what they are doing internally to address that changing requirement of personnel or is all of this being contracted out to contractors?

Ms. ENGLAND-JOSEPH. There is a large amount of contracting out that is done in managing these properties once they become HUD-owned. However, that requires HUD to be sufficiently expert enough to oversee those contractors. There is probably a question in terms of capacity, the more you have to contract out for more properties to be effectively managed.

HUD is experimenting with a number of things as a part of the "reinvent HUD" initiative. They have clearly focused the multifamily area as the place where they put a great deal of priority. They are also talking about centralizing and building teams of experts that could go almost anywhere in the country to provide the kind of hands-on property disposition activity that needs to go into a community and actually sell these properties or determine what needs to be done with those properties.

So HUD is experimenting; but overall, the basic premise of your question is right. I think we have a great deal of concern about HUD's capacity. They were never designed to be a landlord, much less to manage these properties when they do not have the infrastructure, not just the staff and the resource expertise, but the information. They do not have the kind of information you or I would expect ought to be available in order to understand this inventory, to manage it, and to make some judgment as to how quickly to move on some things and hold off on other things.

Information resource management is as critical a need as anything else.

Mr. WATT. I seem to have some vague recollection that in another appearance before this subcommittee, your office had done some analysis of the cost-effectiveness of doing this work in-house as opposed to contracting it out to contractors.

Have you all completed that analysis?

Ms. ENGLAND-JOSEPH. It was not actually a cost analysis of contracting out versus doing it in-house. What we did talk about was that the holding cost of keeping the situation status quo for last year was \$250 million, almost \$260 million.

I think the point we were making is whether you maintain these properties within HUD or make it available through legislative action to sell these properties on the open market, there will still need to be some costs associated with those properties. However, it is very difficult to measure the qualitative aspects of these properties declining as they are held in the HUD inventory. But I think everyone is concerned the longer they become HUD-owned and held and managed, the more they may decline in value and quality.

So there is a great deal of concern that the holding costs actually could become greater.

The real concern we have with the way in which the situation exists today is a lot of these costs are hidden because they are all borne out through the General Insurance Fund or the GI Fund of FHA. So that you, the Congress, are unable to really provide the right kind of oversight and focus on what is happening with that inventory because it does not come up every year as an appropria-

tion requirement that you can talk about and understand and get your hands on.

If these properties were sold or in some way we were to switch them from the way in which we fund and support them now, it would shed greater light on the deficiencies that I think exist in the management of this program.

Mr. WATT. Is it your sense that HUD is taking significant—I will not ask sufficient or ask you to pass judgment on quality of what they are doing; but are they taking significant steps to try to deal with this in some systematic way?

Ms. ENGLAND-JOSEPH. There is no question in my mind they have made it a high priority and the level of attention they have given it since we have been involved in this work has been strong. Very strong attention has been given.

I think, one, the legislative activity that needs to occur in order to make decisions about how we move this property out is something that really rests here. We need to get some decision as to how we are willing to allow these properties to be disposed of, whether they are totally preserved, somewhat preserved or to maintain some stock in a lower income community.

The place where I think HUD needs to spend more time, more attention, higher priority perhaps and more money really is getting behind that insurance-enforced portfolio and managing the risks associated with that huge number of loans, 15,000 loans, that are in that insurance in force that HUD has now estimated, 40 percent of which could likely go bad over the life of these loans, which could be as much as 30 years. That is a significant risk to the Federal Government.

HUD really is only now trying to build the right kind of information system that private industries had all along in terms of understanding what are these properties all about and to get early warning signals regarding whether these things are going into delinquency or not and to take whatever action can be done to save these things before they go bad and suddenly have to go into the HUD-held portfolio.

That is a place where I think HUD is putting priority. I would probably emphasize they need to put greater attention and priority on the other place where I think they recognize they need to take more action on, but I am not really sure how I would judge their performance to date on the HUD-held inventory, where we hold the note, but we do not yet own the property.

Many of those notes, as we said here, are delinquent; over half of the 2,400 HUD-held loans are delinquent; 61 percent of those are not in any sort of workout activity right now. That is to say, at some point in time they may have been in a workout program. HUD made changes to extend the workout from 3 years to 9 years.

The bottom line has not changed for that particular group of loans. The bottom line is very little real action being taken to try to right these loans or do whatever we can to move them into foreclosure if that is what we ought to do. The difficulty that is posed to HUD is because they see nothing once foreclosed moves anywhere. The incentive of doing anything other than allowing them to sit there as a HUD-held note is probably, in their eyes, the best thing they can do.

My concern is all we are doing is creating a worse situation. All of these are linked together to some extent, but I think there are more things HUD could be doing to actually try to make these loans healthier.

Mr. WATT. I take it that this insured issue that you mentioned is parallel to the guarantee situation that I was talking about with Mr. Dunn?

Ms. ENGLAND-JOSEPH. These are loans——

Mr. WATT. It is further down the road?

Ms. ENGLAND-JOSEPH. Right. Right. That is essentially what this \$11.9 billion tells you is over the course of the next 30 years. In any one year it may not be that great. Cumulatively, it is significant.

Mr. WATT. Thank you, Mr. Chairman. I appreciate your indulgence.

Chairman GONZALEZ. I want to thank you. I think you have been very perceptive and incisive in your questions.

I want to point out with respect to the statement just made by Ms. England-Joseph that we have no ability to obtain—well, we have all these proposals; we are constantly faced with—always battled back and forth in getting Congress to try to fine tune the administrative process. Statutory enactments, legislative provisions must, of necessity, be couched in general terms. I resisted that on the basis that, as much as I respect the independence of this branch, I do so also *ex cathedra*.

The fact we have not been able to get concise and exact and precise information is a question I asked the inspector general. He says, well, we just do not have the means to get the specifics.

Well, it is still his job in answering to us—in other words, to assess this situation that she has accurately described as precarious insofar as taxpayer responsibility is concerned, to then in his formula of recommendations to the Secretary insist now what we are doing in H.R. 3838 is somewhat encroaching.

We are providing in statutory language for, in some cases, the ability of the homeowner, mortgage owner, to work together with HUD in those cases where maybe, say, a period of 2 years, you haven't done anything, to do so. But it is by no means a mandate; it is just facilitating the overarching authorization language to permit the executive branch, in this case HUD, to do that which they say up till now has been difficult and, therefore, unable to provide us thus far with the specific statistical knowledge and information we need.

It also ties in with the fact that the inspector general has repeatedly said over the course of several years—not just the last 2—that one thing contributing to the malfeasance existing in some of the programs is that HUD, first, has been understaffed; and then malstaffed. Whatever staff it has had has not addressed it. What we want to do in H.R. 3838 is say to HUD, well, now you have authorizing language that will enable you to combine and concentrate, but that is as far as I would want to go.

There have been some suggestions about us mandating SWAT teams. Well, you know that—I never had any admiration for SWAT teams anyway, in law enforcement. So to me that is ridiculous. It



is absurd. It goes back to the fundamental question of proper and efficient management responsibilities.

Yes, there is an inability, and the inspector general has reported that, to give us the statistics we have asked for. But we must never forget that in dealing with the—as you say, well, yes, the private sector has these; of course, they do. They are always in control of the situation. And they have profited from the deficiencies and it probably always will be that they would have that authorization; but we are interested in the information that will enable us to provide the authorization—authorizing backdrop for the Administrators to have full capacity to do what they can do.

On the other hand, the reality of the situation is that no matter how brilliant and able an Administrator is, no matter how much he knows he will need something. He, in turn, is the master of his own destiny, because he may have OMB which is the White House saying well, that is fine, it sounds good, but you are not complying with—in the case of President Reagan with ERP, the Economic Recovery Plan. That is what Secretary Pierce told me to my face. My question to him was, wait a minute, that is not the issue. The issue is between you and Stockman, do you have equal access to the President in making the judgment, making evaluations, leading to a situation?

Now you are the trustee of all of these multiple congressional mandated programs; and he looked at me and said, oh, that is not the question; the question is we are all committed to the President's ERP; and with that I urped. That is still true today. Why go any further?

I have tried to explain to the Secretary when he asked me after his nomination, I said, well, I am not one to give you advice. I haven't been an Administrator. But I will tell you this: It is not advice, it is an observation. I have seen every Secretary since the beginning, and I think the thing you have got to realize sooner or later is that you are being selected, not elected, and you will always be subject to that selecting hand.

If a Secretary doesn't even have the determining power to select those who will serve under him, we can start with that. I don't know of any Secretary, even Kemp, who made that decision. When you talk about the problems here at HUD, well,—and I sympathize, Mr. Dunn. Let me tell you. That is why really I compliment you. I think you have not gotten at it right at the beginning.

Look it over. It is what has happened with RTC; how we had to struggle here to get an Affordable Housing Program in RTC. It was a dog fight. Over at FDIC, once FDIC was made the disposition manager of all of these properties, which I was not for in the FIRREA, and if we had them in that big mistake—we had to amend that in the last Congress. It took that long. If you look at RTC's track record, because you talk about—this inventory, this overhang you have. You say, well, it had nothing to do with the conditions or some such, what have you; but yes, it is. Because those are the last properties like in RTC that the market isn't buying. Why isn't it buying?

Well, you have to go out there and see, but I would say that it is because the real good ones, they were easy to dispose of the first few years. When you get to the last ones, it becomes difficult.

That is the challenge of the day. But I would not look down and criticize an administrator any more than I did not do it in the last years with—I wasn't one of those joining the litany or chorus on the horror stories in RTC. We predicted—we knew the country had never faced this situation.

In fact, President Bush's first recommendation for the RTC Board was a membership of three. That was a bill he sent over. Those three were Chairman Greenspan of the Federal Reserve Board; Secretary of the Treasury Brady; and the Attorney General. Not one of those with any kind of a department or agency, or what have you, that had any record on either property management or disposition.

Here we were going to place about 400 billion dollars' worth of real estate ownerships of such diverse character from single-family housing to the most complicated commercial and speculative investment property that the country had ever had.

So HUD, naturally, is going to reflect that over on its side of the market; but if we look at the track record of each, we will find that—I, for one, must say that I thought it was going to be a lot worse. I thought we would end up with about 1,000 Donald Trumps.

By golly, I must admit that by far and by large, when you compare us, say, to Germany, they set up what they called the *truh handelstadt*. That was a trust, an RTC, their RTC to handle the properties in East Germany and the privatization. They had a woman to handle that the first year. She did not last a year. Ended up in scandal because you had the same thing there you have here. You always have those that are going to try to make their money as fast and quickly as they can.

It is estimated—it had about—well, about maybe 10 percent of what our country had. They still have not closed it out.

They had their problems. So here is a country that is really humongous, really very different socially from ours. Ours is a tough one. So I have got to give credit where credit is due.

What it translates to HUD, we had been saying from the beginning that two things were not being done: HUD was refusing and did until last year on the emergency mortgage assistance to prevent foreclosure. It wasn't until last year that finally we had—I had four cases.

Every one of them, the four cases were widows. If you think the guys out there in the private sector are going to forebear if they chance to get a house that they are going to make a good chunk of money on, then you just do not know what the real world is out there. I had these pathetic cases and three out of the four not even being in my district. They were in the adjacent area. They brought to the attention that their—two cases, the husbands died, but by golly, these ladies were not working as is the case in San Antonio. Too many are marginally or submarginally employed.

They were trying to keep payments up; and at the high level that had predated the decline, so they appealed and we looked into it. These individuals had gone to HUD, every one of these women. In one case the HUD person said well hey, look, I had the same thing happen in my family. I let my house go. I moved in. Nothing we can do. Nowhere was anybody told about here is a program that

maybe you could have recourse and you could rearrange your mortgage situation.

I will say this for Secretary Cisneros. He caught on real quick. By golly, they did use it. Every one of those four ladies are in their homes when they had been given eviction notice by the mortgage company. Now, how much of that goes on where they just didn't happen to have the ability to contact somebody or their Congressman?

It is the same thing in the Farms Program. For instance, we had hearings the first year I became chairman of the subcommittee where for the first time in its history the Congress went into migrant labor and poor labor housing. We went to about a 1-hour-and-20-minute drive from the Nation's Capitol where the Eastern Shore States conjoin: Virginia, Maryland, Delaware.

We went to these labor camps, went in there personally. It was horrible. I had not seen any conditions like that, and probably still are to some extent, except in a Third World country and back 60 years ago during the Depression. I am a Depression era kid, and I have a vivid memory of that period of time.

We walked into this labor camp where they were picking, at that particular time, cucumbers. They were getting—I forget how many cents per bucket of cucumbers. But they had a notice, mimeographed notice posted and it said, "do not use the water." You cannot boil it. But you will have to go to the county seat, which was—I forget how many miles, and buy a barrel of water or half-a-barrel of water for I think a cost of about a day's labor.

So I raised the question: Why can't you boil it? Well, because it has nitrite, nitrites. Then we went to the other camp. And the farmers there were using old, leftover prisoner of war camps where we housed German war prisoners. There—it was pathetic. In every one of those cases, we brought in the growers, the foremen. I said why don't you make use of your 1 percent loan? One percent. This Congress has given the farmer anything he ever wanted, 1 percent loan, in order for you to get a loan to build labor housing, either migrant or regular for them.

Well, some didn't know about it. So we brought in FmHA. Nowhere was there any outreach any more than there was in HUD in the case of these poor laborers.

The Congress, yes, I think we do a miserable job of passing laws and then following through and saying, oh, we have a program and not really following through on oversight. But there is a limit to how far we can go in trying to govern things an Administrator should or should not do.

But I use those as illustrations because I think the big problem today is we have lost sight. The homeless, for instance, the Homeless Programs are not institutionalized. We were the first—this subcommittee was the first on December 15, 1982, to bring the Nation's attention to what turned out to be homelessness. The reason was that for the first time since the Depression, I saw something I hadn't seen since the Depression: Instead of the traditional ne'er-do-well or the alcoholic or the hobo, as we called them during the Depression, I began to talk to mother, father, maybe one or two kids living in an automobile.



It wasn't necessarily the frost belt. I had a family in my own district living in an automobile. We were able to get public housing to give us some emergency shelter. There was no big ado. The only ones that had anything, it was for single males, was the Salvation Army.

Finally, after we got our programs going, that we provided the monies for the programs to shelter women, for instance; single female heads of households. The problem, as I see it, is not welfare; the problem is poverty.

Why did we have this happen visibly from 1982 on to this day and still on every single letter I have had or message either from individual mayors or cities rural, urban, the League of Cities, or the National Association of Governors, indicates they have more, not less homelessness.

So that means that unless we want to know where we are coming from, and we do not care to do that, then we are not going to know where we want to go.

Now, if we do not know where we want to go, well, any road will take us there, take you anywhere. It will get you to nowhere if you do not know where you want to go. And we haven't.

I said in the beginning, all right, we have this new phenomenon. Why?

Well, I talked to a graduate of college who was here in the beginning when that hearing was held in order to get the agencies, GSA, whatnot, to get us to use the old city college on Second Street, which is still where they are, the homeless. They were not wanting to do it. Said there was no problem.

We finally had the hearing, brought them in, got attention, and then they said, all right, we will provide something. And we had one who was a young man, a graduate in physics, and one of those things at that time, there was some attention and some TV cameras came in, we had him testifying. He said he had come to Washington because he thought maybe he could find something here.

But he came from Colorado where the steel mill was closing down. One year later in Pueblo, Colorado, the steel mill had closed and 5,000 workers were out of work. They were getting a rate of foreclosure on homes, single-family homes, of over 100 a month. This was one of them. What he had done was parked his wife and I think he had one kid in his wife's family home in Ohio and came up here.

Well, he was at the shelter. The next thing I know, I get a phone call from a TV studio in, I believe, either Nebraska or Iowa. They said, say, we just saw this young fellow there and we would like to come to hire him as an engineer in the studio. He got a job. You never know.

The point is that that is the basic reason and also the withdrawal from housing on a national level.

We had David Stockman come in here. The only appearance he himself admitted he ever made before a nonbudgetary committee. He said, it is our opinion, our decision based on that opinion of this administration that an inordinate and excess allocation of credit is being given to the housing sector of our country. Well, you cannot have a withdrawal without having consequences. You know, you do

not have to be an expert to know that. That is what we are. Well, what have we done to reverse that?

Actually, nothing. Because vouchers and certificates must be predicated on existing housing such as it is.

What is the amount of that voucher?

What is the amount of that certificate?

In Dallas, Texas, for instance, where is that recipient that is eligible going to go to find a decent house in Dallas, Texas unless he goes back to the slumlords? I don't know.

It isn't building housing. It is not targeting the need. This country is still a dynamic country. You have people being born every day. Here in the Congress we have gone into freezes. Freeze. We have gone back to that this year.

The budget presented by the administration is really very little different from last year's budget, and President Bush's. I know the budget taxpayer exigencies.

But where are we going to have the vision and the vigor that, say, Congress had in the thirties? Treasury was as much broke as ever it was; yet, they passed a homeowners assistance program that kept thousands, tens of thousands of American families in their homes.

When it was closed out in 1941, what happened? Did it waste the substance of the country? No. At that time that amount of money would be the equivalent of about three or four times today's money. They reported to the Treasury an infusion of about \$400 million in 1941.

Then out of that came such other things as the Small Business Administration to make up for those programs that had been built up here during the Depression. But we never did get around to keeping up with what happened after the war, either in this subcommittee or in the times generally where you had an entirely different world. We still have more or less the same framework of reference financially on such things as the production and purchase of affordable housing after the war, as we had before the war. The S&Ls were doomed the moment we had the societal changes, not only our country, but the whole world. What we have done is to withdraw.

We have withdrawn and countries like Europe have unified. You had vast national commitments; Germany, Belgium, France, England since the seventies, since the middle part of the seventies; whereas we are withdrawing from the commitment.

In every one of the countries, they were not able to develop any housing programs of any kind until they first made a national commitment to housing. We were withdrawing, as exemplified in David Stockman's message to us on February 8, 1981.

So here we are today. We all are now treading water. The only thing you do is the best you can do with what it is you can do.

I had, for instance, intense interest in—being that what I want to do is expand the life of these programs and not see them die this year. I intend to get what I want. But if it were up to me, I would say that if you can give priority to the building of six B-17 bombers or whatever, or a battleship that the Navy says it does not need, that amount of money, we could fund my emergency housing and community development and economic stimulus package of 2 years

ago; you would put over 650,000 people to work. We are not. Until we do that, I don't care what any administration wants to do; it will not succeed.

You go back home and it is still the economy. If you are in touch with the folks, you can have the Federal Reserve talk about inflation and how it has been controlled. You go back and talk to the good folks in the grocery store. They will say, Henry, what is going to happen? Well, what they mean is they are not paying less for groceries than they were 10 years ago.

As a matter of fact, they are paying more. They used to pay less than \$1 for a box of Wheaties that today is over \$2. They are not paying less for utilities; they are paying more for light, gas, water.

They are not paying less for rent. They are paying more. So where has inflation been? Not in the basic cost of living. This is what we have to have every day in America. We have to have lights, eat, water, groceries. And we are paying more for those. But in the meanwhile, the average wage of a wage earner within the last few years has lost \$80 a month in that paycheck on an average. So all of this is reflected and the reason I am going into it is because I still think the fundamental programs are wise and are needed.

For instance, I went into section 523. While we went to the Eastern Shore and saw the pathetic places they live, we went to Texas, we went to the Middle West, went to California. We went all the way from South to North, and ended up in San Francisco in California. I saw magnificent work. I saw young couples building their home with the technical assistance and self-help of section 523. But we are literally eviscerating them. Then sections 514, 515, and 516 because it involved the homeless, migrant homeless.

I would like to do that. But to be more specific—and because we have kept you here too long—I will submit the specific questions requesting the information to give you time to analyze them, as well as one that I was making sure before we left, for Ms. England-Joseph. This is something that is really bothering quite a number of people.

I have received not only individuals, but throughout the country at least, oh, I would say at least 11 States and about twice that many agencies that are very perturbed about the President's budget request to move the present emergency grant shelter from FEMA to HUD.

Does the GAO have any opinion on this? Have you had any request for an assessment?

Ms. ENGLAND-JOSEPH. No, sir. We have no opinion. We have not been asked to do anything on that issue. The only thing I can tell you from the vast amount of homeless work we have done, many of the programs that are under McKinney get different types of support in the community; and the FEMA Emergency Food and Shelter Program probably gets the greatest amount of support because of the way the money is disbursed with the board that represents, in many ways, the nonprofits at the local level.

So there is an efficiency associated with the way in which that money is disbursed and a linkage to the community those people can see directly and clearly. Whether it is housed in FEMA or



housed in HUD is something that we have not looked at and really cannot weigh in on.

Chairman GONZALEZ. I appreciate that. I just wondered if perhaps you had some collateral information.

It is a matter of great concern. We are going to have to address it here. I intend to. I agree with you. I have seen both locally and throughout the country where I have gone the FEMA operation, the National Board has done good work.

Ms. Libson here is the professional staff handling these hearings. She will tell you that we had—remember the communication? The Senate—well, the Senate, you remember last year the Senate had acted rather precipitously and had taken the funding from the board—

Ms. ENGLAND-JOSEPH. The Interagency Council, Senate Appropriations.

Chairman GONZALEZ. We reversed that; I communicated with the White House. They resolved that by making it a White House funded operation, made up of that, but kept pretty much the workings of the Interagency Council intact.

In this case here, I am very greatly disturbed because if the question is inadequate staffing to begin with, how will the purposes of the Emergency Shelter Program be better served by transferring it from FEMA to HUD?

Ms. ENGLAND-JOSEPH. I might say one thing about the Interagency Council. What we say in our statement is pretty much raising a concern or caution regarding the decision to have a working group of the Domestic Policy Council handle what the other council did in the past. We will wait to see what happens, but I think we are concerned that the level of information exchange that really needs to occur, that normally when the Interagency Council worked well, it did help the communities get information; and that is a lot to ask for the Domestic Policy Council Working Group, along with everything else they have responsibility for to handle.

So I know HUD still plans to provide the administrative support through maybe a skeleton interagency council kind of staff.

Chairman GONZALEZ. Yes.

Ms. ENGLAND-JOSEPH. We are really waiting to see exactly how that works out in the end.

Chairman GONZALEZ. So are we. I had a very encouraging letter from the little lady there at the White House. And I think the main danger that we were seeing last year has been removed. We also are awaiting to see exactly how they carry out the integrity of the process of the council.

Well, thank you, Mr. Dunn, for your great patience; Ms. England-Joseph and your two associates.

I am sorry to disappoint them that we didn't have more questions. But we will have. Some of the members that were not able to make it will have questions in writing for you.

So we deeply appreciate your patience and your great cooperation.

It has been most helpful.

We will proceed very, very expeditiously on getting the enabling legislation out of the way this year.

I have targeted the date. We want it out of Congress not later than June 1. Not just the House, but out of the Congress.

So, thank you again very much. The subcommittee will stand adjourned until further call of the Chair.

Ms. ENGLAND-JOSEPH. Thank you very much.

Mr. DUNN. Mr. Chairman, thank you.

[Whereupon, at 12:45 p.m., the hearing was adjourned.]





**H.R. 3838; HOUSING AND COMMUNITY  
DEVELOPMENT ACT OF 1994**  
**(CDBG PROGRAM AND THE HOME INVESTMENT  
PARTNERSHIP PROGRAM)**

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**WEDNESDAY, MARCH 16, 1994**

HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON HOUSING  
AND COMMUNITY DEVELOPMENT,  
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS,  
*Washington, DC.*

The subcommittee met, pursuant to notice, at 10 a.m., in room 2128, Rayburn House Office Building, Hon. Henry B. Gonzalez [chairman of the subcommittee] presiding.

Present: Chairman Gonzalez, Representatives Vento, Mfume, Roybal-Allard, Wynn, Roukema, and Bereuter.

Chairman GONZALEZ. The committee will please come to order. We have a very lengthy witness list. In fact, we have two panels this morning, and it would be my intention to proceed as expeditiously as possible and move the witnesses on to their respective and important responsibilities and jobs. We are very fortunate this morning to have a very select panel. I have an opening statement. I will just ask that it be printed in the record here at the opening of this session.

[The prepared statement of Chairman Gonzalez can be found in the appendix.]

Let me just sum up what we all know we are here to discuss. It is on the all important and imperative need to extend and renew all of the affordable housing acts that will expire later this year. We just have got to start that process; therefore, we are giving it priority. I have a deadline that I have set for myself, the committee, the full committee, the House, and the Congress so that we will not be flailing around in an election year where we have a very limited number of days to work with before we adjourn this summer period.

The first panel will consist of the Honorable Kurt Schmoke, the mayor of the city of Baltimore, a great city. He is the Chair of the Standing Committee on Community Development and Housing of the U.S. Conference of Mayors, Washington, DC, and is here in his double capacity, in that respect. Also testifying is the Honorable Eddie Blankenship, the council president, city of Birmingham, Alabama, and the Chair, National League of Cities, Community and Economic Development Policy Committee, Washington, DC; Honorable William E. Hanna, Jr., president of the Montgomery County

Council, on behalf of the National Association of Counties, and the National Association for County Community and Economic Development, Washington, DC; and Mr. Daniel P. Henson, III, commissioner of the Department of Housing and Community Development, city of Baltimore, on behalf of the National Community Development Association, Washington, DC.

With that, I am going to ask our very distinguished fellow, the Congressman from Baltimore City, if he would be kind enough to formally introduce our first witness, the mayor of Baltimore.

Mr. MFUME. Well, you are very kind, Mr. Chairman, and I thank you very much. I deem it an honor and a privilege to have the opportunity to introduce to some and clearly to present to others the mayor of Baltimore, the Honorable Kurt Schmoke, as well as the Baltimore City Housing Commissioner, who is here also, in the person of Mr. Daniel Henson. I have known both of these gentlemen over a number of years. I have worked with them in a number of different capacities, and am happy that they are here today, particularly happy that the mayor is here also in his other capacity.

As anyone in the housing and community development field can attest, Baltimore, under his leadership, has initiated and promoted a number of innovative and successful programs. I am pleased and am certainly proud to have him here, along with Mr. Henson, testifying before us. I believe that they will be able to provide us with some much needed advice on what changes should be made, if any, to the CDBG Program and to the HOME Program and, of course, what should remain the same and perhaps even what should be embellished.

Although there have recently been some concerns raised about the management of the Community Development Block Grant Program, it remains one of the most popular programs, not only among Members of Congress and local officials, but among the people who day in and day out benefit from that program. I was encouraged to see an increase in funding for the Community Development Block Grant Program in both the President's budget proposal and in H.R. 3838. So, I look forward to working with Mayor Schmoke and the other panelists who are here. I am happy that he has traveled here from Baltimore. I look forward to the testimony that we are about to receive and would hope that the mayor would take time to talk, also, about his work in Baltimore, as well as the things that I am sure he will mention in his other capacity.

Mr. Chairman, I am going to conclude; but I would like to have unanimous consent to submit for the record a formal statement of introduction.

Chairman GONZALEZ. Without objection, it is so ordered.

[The prepared statement of Mr. Mfume can be found in the appendix.]

Thank you very much, Congressman; I deeply appreciate that courtesy and your presence.

This is a very important panel and very important hearing to our purposes of having a successful legislative year and a continuation of these programs. Let me ask if any member of the panel has a time constraint due to a plane to catch or something?

[No response.]

If not, we will, of course, recognize Mayor Schmoke first. May I ask the panelists first, let me thank you for being here, second for the very, very good statements that you have submitted where we have had a chance to review them in writing. I wanted to compliment you, Mayor, because yours is to the point. It is succinct, very good. I may suggest that if, because of the number of witnesses we have here and in the next panel that, if you can, you could summarize your statement. However, I won't restrict you to that if you feel more comfortable with reading it. So, Mayor, thank you very much, and you are recognized at this time.

**STATEMENT OF HON. KURT SCHMOKE, MAYOR, CITY OF BALTIMORE, AND CHAIR, STANDING COMMITTEE ON COMMUNITY DEVELOPMENT AND HOUSING, U.S. CONFERENCE OF MAYORS, WASHINGTON, DC**

Mr. SCHMOKE. Thank you very much, Mr. Chairman, and the members of the subcommittee. I thank, in particular, Congressman Mfume, who has been such a great champion for the city of Baltimore, and you, Mr. Chairman, for the support that you have given to a number of housing and urban initiatives over these many years. It is an honor to be here today and to appear, not only as the mayor of Baltimore, but as the Chair of the U.S. Conference of Mayors Standing Committee on Community Development and Housing. I have submitted testimony, as you have mentioned, and I will try to just summarize a couple of the highlights here.

Mr. Chairman, the Conference of Mayors would like to commend you on H.R. 3838, the Housing Community Development Act of 1994. It is, of course, necessary that existing housing and community development programs be authorized for fiscal year 1995 and fiscal year 1996. But, it is also necessary that new programs be developed and authorized, and existing programs be refined and improved upon. We believe that H.R. 3838 does achieve these goals.

We mention in our testimony that a status report on hunger and homelessness in America's city—and I will not go into great detail, but it really does outline the problem, with respect to public housing and waiting lists and things of that nature and the problems with section 8, but, we are making some progress.

We wanted to just bring to your attention a few concerns. One had to do with the program, the proposed Leveraged Investment for Tomorrow Program, or LIFT Program. It is my understanding that the Secretary and members of the committee have been talking about this \$200 million program that is still in discussion. We are in favor of the program, obviously. We do not want to see a reduction in block grant funds. We like the fact that the Block Grant Program is sound and continues to be probably the most flexible of all of the Federal programs that we deal with. So, we would hope that the LIFT Program can be supported without cutting the block grant initiative.

As I mentioned, we believe that, in the Conference of Mayors, that there is not a need for fundamental changes in the Block Grant Program. We do have a recommendation on the expansion of the CDBG Section 108 Loan Program. In general, we think this initiative, as proposed by HUD, is a good one, but we have a concern about the use of recaptured UDAGs to fund the grants that



would lower interest rates and provide loan loss reserves. Cities with those unexpended UDAG grants certainly do not want to lose the money. They would like to find some way to make use of the funds. But, we do agree that cities should not be allowed to hold unspent UDAG funds indefinitely. Some rule of reasonableness that would allow for locals to use those funds, however, would be appreciated as they move forward.

We have some suggestions in our testimony about the HOME Program, but they are fairly detailed and technical and they are listed in the testimony. I won't go into those now.

Another issue, Mr. Chairman, has to do with the so-called threshold. One recommendation that we made, along with the other national organizations is that the provision in the statute should be eliminated, which reduces the threshold of \$335,000 for direct local funding whenever the congressional appropriation falls below \$1.5 billion. We recommend returning the threshold to \$500,000. It is my understanding there is a discussion now about a hold-harmless provision, but we did want to make reference to that in our testimony.

A couple of other comments, Mr. Chairman. Regarding the provisions on multifamily housing and our property disposition, we would recommend that HUD be given the necessary flexibility to move the properties. Accordingly, tenants already receiving subsidies should continue to receive subsidies. We view this as a very serious problem for cities, and, if these properties are not taken care of, they will certainly become a detriment to the neighborhoods.

We have not seen the plan. We have been told that HUD is planning, however, to consolidate homeless programs. In the past, as you know, the Conference of Mayors has been opposed to the consolidation and block granting of these programs. We believe that, if the programs are to be funded at a significant level, their consolidation might now be feasible.

We look forward to working with you, Mr. Chairman and members of the subcommittee and committee and HUD, on such a plan. I guess it is simply that our experience with the Block Grant Program generally gives us a comfort level now with this subcommittee and committee and HUD that a block grant approach to Homeless Programs may be workable, is feasible, and clearly the flexibility that would be provided is something that we would be interested in. So, we would like to work with you on that.

So, in closing, Mr. Chairman, I would like just to thank you and the committee for the opportunity to testify this morning. We look forward to working with you further in the development of the 1994 Housing and Community Development Reauthorization bill. As Congressman Mfume mentioned, in our city we have worked tirelessly and worked well with a number of organizations to use these funds in a most flexible, yet targeted way possible. We are seeing significant improvements in the heart of the city dealing with housing, neighborhood economic development, and physical development generally. So, we are strongly supportive of the Block Grant Program and the refinements and improvements that have been made in H.R. 3838.

[The prepared statement of Mr. Schmoke can be found in the appendix.]

Chairman GONZALEZ. Thank you very much, Mayor, for an excellent presentation.

Mr. Blankenship.

**STATEMENT OF HON. EDDIE BLANKENSHIP, COUNCIL PRESIDENT, CITY OF BIRMINGHAM, AL, AND CHAIR, NATIONAL LEAGUE OF CITIES, COMMUNITY AND ECONOMIC DEVELOPMENT POLICY COMMITTEE, WASHINGTON, DC**

Mr. BLANKENSHIP. Thank you. Good morning, Mr. Chairman, and members of the subcommittee. I want to thank you, first of all, for allowing me the opportunity to come before you. I am Eddie Blankenship, president of the Birmingham City Council in Birmingham, Alabama. I come this morning also representing the National League of Cities as its chairman of the Community and Economic Development Committee.

The National League of Cities represents 17,000 cities and towns throughout the United States. As we met this year at this time, we discussed and brought together what we thought was a comprehensive study of an objective that had to be done and could be done with CDBG and with the HOME Program and I would like to bring it to your attention.

NLC just completed our Congress of Cities Convention here in Washington. We completed an action agenda that supports the continuation of the CDBG Program and the HOME Program.

Our membership believes that all levels of government should have the responsibility of bringing back local economies to assure their strengths in the United States. For that matter, we think that all people who are involved in this should be a part of the total spectrum.

To make a difference, we urge you, Mr. Chairman, to reauthorize and fully fund the Community Block Grant Fund. NLC strongly recommends that the CDBG Program continues to be the cornerstone of the things that we were trying to do in cities like Birmingham, Alabama, Baltimore, Maryland, and other places in the United States.

It is the CDBG Program that has been here for 20 years and has done an awful lot of things. For example, in the city of Birmingham, Alabama, we have used our CDBG funds to eliminate the homeless in our area. Second, to bring about jobs and job training. Third, infrastructure and other forms of meaningful work that can be continued—if CDBG were to continue.

In Birmingham also we have use of funds to do other things that would be, at this time, too numerous to mention, but it is also in my testimony that has been submitted to you at an earlier time.

Mr. Chairman, we also believe that under your leadership and in the leadership of the committee as a whole, Congress will play a major part in bringing about these changes.

I would also like to encourage all of the members of the subcommittee to participate in the CDBG Week Celebration across the United States. In my written testimony I include information on how CDBG has benefited communities. I would hope that this subcommittee would find time to read it.

The 1992 amendments that were passed by this subcommittee simplified the HOME Program. We appreciate what you have done and commend you for doing it. NLC supports your legislation, H.R. 3838. As Mayor Schmoke said, we, too, hope that it continues in its life.

Finally, Mr. Chairman, we want to just thank you for the opportunity of being here this morning.

Thank you so very, very much for the opportunity of being here. We will be ready for any questions that you may have. Thank you.

[The prepared statement of Mr. Blankenship can be found in the appendix.]

Chairman GONZALEZ. Well, thank you, Councilman Blankenship, and thank you for serving on the local level at the cutting edge. That is where I started out 41 years ago. I deeply appreciate the work you are doing and your help.

Let me say to the witnesses that your written testimony, as given to us, will be in the record of the hearings following your verbal or oral presentation. Thank you again.

Mr. BLANKENSHIP. Thank you.

Chairman GONZALEZ. Mr. Hanna.

**STATEMENT OF HON. WILLIAM E. HANNA, JR., PRESIDENT, MONTGOMERY COUNTY COUNCIL, ON BEHALF OF THE NATIONAL ASSOCIATION OF COUNTIES AND THE NATIONAL ASSOCIATION FOR COUNTY COMMUNITY AND ECONOMIC DEVELOPMENT, WASHINGTON, DC**

Mr. HANNA. Let me also wish you good morning, Mr. Chairman, and the other members of the subcommittee. As you noted, I am testifying today on behalf of two organizations; the National Association of Counties, for which I serve as its Housing Subcommittee Chair, and the National Association for County Community and Economic Development.

The first thing we want to do, Mr. Chairman, is commend you for introducing H.R. 3838 and for holding these hearings on a timely basis and particularly in regard to reauthorization issues. I will first address the issues affecting the CDBG Program that HUD Secretary Cisneros and others have described as the Nation's best Federal domestic program. I heartily agree with his assessment and I think maybe even Congress concurs, because funding for the program has increased over the past 3 years to its current level of \$4.4 billion.

In Montgomery County, we use CDBG for a variety of activities, including facilities rehabilitation and public services. For example, the county provides funding to a nonprofit organization that will oversee the rehabilitation of an old bakery into a day center for the homeless. The center, which will open later this year, will include meals, psychiatric counseling, job counseling, clothing availability, and onsite support groups. Medical services are also available.

Now, throughout CDBG's 20-year history, NACo has worked with Congress to improve this program. Attached to my testimony is a NACo resolution that identifies additional refinements that county officials support. Let me highlight some key provisions.

First, NACo urges Congress to appropriate a minimum of \$44.4 billion for CDBG in fiscal year 1995. Of course, I am sure it will



come as no surprise, that we support the higher authorization levels now in H.R. 3838.

We oppose a provision in this fiscal year 1995 budget which would set aside \$200 million in CDBG funds for a new LIFT Program. While such a program may be an appropriate use of funds, we cannot support this initiative at the expense of funding for CDBG. Taking formula grant funding which benefits all entitlement jurisdictions, and converting it to discretionary money for the benefit of a few, cannot, in our view, be justified.

Now, various provisions in the NACo resolution articulate our overriding concern that the program's flexibility be maintained. For example, we oppose any limitations on activities that currently are eligible for CDBG funding. For instance, we want to strongly state that, in our opinion, a swimming pool built in a low-income neighborhood is an appropriate use of CDBG funds when the community has identified that this is what they need the most. Such recreational facilities provide constructive activities for our youth and alternatives to violence and drugs that plague so many neighborhoods.

County officials oppose any change which would require grantees to do proportionate accounting of low- and moderate-income benefits. The House Banking Committee resoundingly rejected such a proposal in 1990, and we urge you to do so again if the issue resurfaces.

Proportionate accounting would severely restrict our ability to undertake areawide improvements and hamper our efforts to stabilize marginal, mixed income neighborhoods that may, in the absence of CDBG improvements, become even more blighted, and require more substantial revitalization efforts in the future.

NACo opposes any change which would make certain categories or current CDBG grantees ineligible to receive direct allocations. If HUD's study of the CDBG formula recommends that more higher income communities be ineligible for formula grants, we urge you to reject that change for a number of reasons. One, to be poor in a wealthy jurisdiction is usually even more difficult than in one where those similar lower incomes reside. To the extent that the formula—either the current one or another measure need, the funds will be directed toward that need. Thus, if a jurisdiction's relative need is less, it will get less funding.

Now, to the HOME Program. Let me address refinements to that very fine program. Mr. Chairman, HOME is just now realizing the potential which those of us who fought for it anticipated. Grantees are leveraging other resources for housing, are using funds prudently, as measured by per unit cost and are targeting benefits to our poorest citizens far in excess of what the statute requires. Let me provide a few examples of my own county. We are providing funds to a community housing development organization for the rehab and conversion of an old motel in Rockville to 80-plus one- and two-bedroom rental units. The targeted population is 50 to 60 percent of median income.

Our County Housing Opportunities Commission is constructing a rental townhouse development with 15 units set aside for households at or below 30 percent of median income. We use HOME in combination with county funds and other resources to help meet

the housing needs of our very low-income citizens. The attached NACo resolution, again, recommends a number of refinements to the HOME Program.

County officials are very pleased with the authorization levels for HOME: \$2.1 billion for fiscal year 1995 and \$2.17 billion for fiscal year 1996, contained in your bill. We also are pleased that the bill contains noncontroversial refinements that NACo and other national organizations recommended to HUD last summer, were subsequently adopted by HUD, and are now incorporated in the Senate-passed S. 1299. These include, first and foremost, leveling the non-Federal matching requirement to 25 percent, making units assisted rather than funds spent, the basis for measuring targeting requirements, and eliminating the requirement that persons receiving home buyer's assistance must be first-time home buyers.

In addition, NACo is working with HUD to change the regulatory definition of commitment of home funds. Commitment should be recognized once home funds are subject to a legally binding contract. This regulatory change, which we are optimistic that HUD will make, will then conform HOME to the CDBG definition of commitment. My other remarks are contained in the written statement. I think it is a good time to stop. Thank you for this opportunity to present our views.

[The prepared statement of Mr. Hanna can be found in the appendix.]

Chairman GONZALEZ. Thank you very much, Mr. Hanna. I deeply appreciate your very constructive testimony as written. It is very helpful to us.

Well, I was going to ask our colleague from Baltimore to introduce Mr. Henson. He may be his constituent, but I do not know. If you do not mind, give us a little background on the gentleman from Baltimore.

Mr. MFUME. Thank you very much, Mr. Chairman. He is my constituent, as is the mayor. I am happy to go back to some of my earlier statements about Dan Henson, because of my level of respect for the quality of his work. As many in this room know, he was Regional Administrator for the Small Business Administration and Director of the Minority Business Development Agency, serving under the Carter administration. He has served now for some time as housing commissioner of Baltimore, I think, just about a year or so. One year?

Mr. HENSON. Today 1 year.

Mr. MFUME. I am good. He has worked with the mayor to not only turn around in many respects the city and the city's effort on housing and development issues, but to work with the mayor to bring about a number of successes that I have spoken about earlier and that I am glad that the mayor referenced in his remarks as things that we in Baltimore feel very proud of. So, we are happy, Dan, to have you here. I certainly look forward to your testimony. Thank you.

Chairman GONZALEZ. Thank you very much. Commissioner, thank you for your help. You are recognized now.

**STATEMENT OF DANIEL P. HENSON III, COMMISSIONER, DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT, CITY OF BALTIMORE, ON BEHALF OF THE NATIONAL COMMUNITY DEVELOPMENT ASSOCIATION, WASHINGTON, DC**

Mr. HENSON. Mr. Chairman, thank you very much. Just to piggy-back off of what my Congressman has said, we in Baltimore are very, very proud of him. We do not see him as much as we used to because his time is pulled to everything. He gives us all the attention we need. We are very, very pleased with his activities here, and hope you understand the valuable jewel that you have in Congressman Mfume.

Chairman GONZALEZ. Well, we went to the Congressman's district in Baltimore just a year before last, I believe, and had a very wonderful day-long hearing. In fact, we went to the area where he was born. It is obvious that the folks in and out of that area love him as they should. I can reemphasize his great value, as a Congressman, particularly as member of the committee and subcommittee.

Mr. HENSON. Well, thank you, Mr. Chairman.

I am the commissioner of housing and community development for the city of Baltimore, but I am also executive director of the housing authority of Baltimore City. I listened very carefully to my mayor's testimony so that we would not conflict, because I am here today to testify before this subcommittee on behalf of my city, where, by the way, over 500 community leaders are in the process now of working on producing the best possible empowerment zone application in the country.

I am also here to testify on behalf of the National Community Development Association, or NCDA, and the National Association for Housing and Redevelopment Officials, or NAHRO, on the reauthorization of our Nation's key housing and community development programs, particularly the CDBG and HOME Program, in my estimation, the two most critical Federal resources available to the local governments today.

NCDA is a membership organization and it comprises over 500 local governments. Mr. Chairman, before I address the specific authorization issues, I would like to note that, beginning March 28 through April 3, 1994, communities across this Nation will mark the eighth annual celebration of National Community Development Week, a week-long annual campaign to emphasize both locally and, at the national level, the contributions of the Federal Community Development Block Grant Program. We are also pleased that HUD Secretary Cisneros, for the second consecutive year, has issued a declaration expressing HUD's support of National Community Development Week, which states, in quotes: "CDBG has shown the strength of a targeted but flexible approach to problems in our communities, while fostering cooperative relationships between the public and private sectors to solve these problems."

We hope that many of the committee members—we know that Congressman Mfume will have an opportunity to participate in National Community Development Week activities both here in Washington and in your communities, and learn first-hand of its accomplishments.



Mr. Chairman, I am going to address my remarks quickly to the CDBG Program and tell you that fundamentally the CDBG Program, as it exists today, is sound, workable, and an effective program. We strongly believe, as you do, I believe, that no major changes are necessary. However, NCDA and NAHRO are proposing a few modifications in the administration of the program, which we believe will strengthen and expand its flexibility and application and further enhance the responsiveness of the program to local needs.

The funding levels. We have commented that we believe that a \$4.4 billion level is the least that we should shoot for. We would like to have a \$4.6 billion level by fiscal year 1996, and corresponding increments to make up for inflation and other erosion in fiscal year 1997 and fiscal year 1998. We believe that the public service cap of relief is something whose time has come—that raising that level of the amount that can be dedicated for public service activities, from 15 percent to 20 percent—that now would be the time that we would suggest that to you.

The Section 108 Economic Revitalization Initiative, as well as several other activities, are detailed in more expansive remarks in my written testimony.

I would just like to piggyback on the mayor's comment about the LIFT Program, or the Neighborhood Leverage Investment for Tomorrow Program, which I see as a way in which to give us a little bit more creativity. I do not, however, NCDA and NAHRO, do not believe that the appropriate funding source for that is a reduction in CDBG funds, but would ask you to strongly consider that program. We think it is a very, very important program.

Mr. Chairman, NCDA and NAHRO, on the HOME Program, represent hundreds of communities that strongly supported the enactment of the Cranston/Gonzalez National Affordable Housing Act of 1990, which brought us the HOME Program, and continue to stand behind the HOME Program as a key to addressing our Nation's growing housing crisis. Without HOME, communities would be unable to leverage the kind of public and private resources for affordable housing that are necessary to address housing needs in a comprehensive manner. Nearly 3½ years after the passage of the National Affordable Housing Act of 1990, the HOME Program is actively working in communities throughout the country. For instance, 70 percent of the HOME funds are currently being used for rental housing projects, followed by 26 percent for homeowner rehabilitation and 13 percent for first-time home buyer programs. According to HUD, the average home subsidy cost per unit is around \$17,000. As of the end of February 1994, the HOME Program had assisted approximately 54,130 units. Over \$940 million of HOME funds have been committed for housing leveraging and an additional \$1.2 billion in housing funds.

In addition, the HOME Program has far exceeded the income benefit targeting guidelines dictated by Congress. According to HUD, over 43 percent of the HOME funds expended have gone to serve those persons at or below 30 percent of the area median income, and 24 percent for those persons whose income fell at 50 percent or less than the area median. These impressive figures provide

further proof of the effectiveness of this Federal Housing Block Grant Program.

While NCDA and NAHRO do not consider commitment and expenditure rates as an absolute measure of the success of a program, the HOME Program has more than doubled its commitment rates since HUD reported the figures at the end of June. In Baltimore, for example, we are out of money right now, waiting for our next allotment in April. Once we got started, the demand and the utilization of the funds has overwhelmed us. Participating jurisdictions or PJs, have committed approximately 61.4 percent of the fiscal year 1992 funds and about 9 percent of the fiscal year 1993 allocation nationwide.

Mr. Chairman, specific legislative recommendations that we are making regarding the HOME Program, are, again, included more expansively in my written remarks. I think I will agree with Mr. Hanna, that this is probably a good time for me to end and to ask whether or not you or the subcommittee members have specific questions.

[The prepared statement of Mr. Henson can be found in the appendix.]

Chairman GONZALEZ. Thank you very much, Mr. Commissioner, and Director.

We have notice of a rollcall vote. We apologize, but we are going to allow the members to take a few minutes to register their vote. We will stand in recess for no more than 10 minutes. We duly apologize to the panel.

[Recess.]

Chairman GONZALEZ. We have done a good job. I do not think anybody exceeded 6½ minutes, which I think is very, very great. You have covered the ground very well. One thing I neglected to do is ask the Congressman or colleague from the adjacent county over in Maryland to introduce and give us some background on Mr. Hanna. I do not know that you are his constituent, but he has part of Montgomery County. We had a hearing over there in his district, and it was very interesting and very valuable to us. In fact, it was sort of a kickoff to what we are doing now.

Will you, please, Congressman?

Mr. WYNN. Thank you, Mr. Chairman. It does give me a great deal of pleasure to recognize one of the outstanding leaders in Montgomery County, one of the counties that I represent, the chairman of the Montgomery County Council, and also here representing the National Association of Counties, Mr. Bill Hanna. Mr. Hanna has been very active, as you can see from his testimony, in issues relating to housing and community development. We are certainly very pleased to have him with us today.

I caught the tail end of your testimony, Mr. Hanna, but I have been reading your remarks. I am in complete agreement with your sentiments with respect to where we are on CDBG. We are delighted to have you with us today.

Mr. HANNA. Thank you very much.

Chairman GONZALEZ. Thank you very much.

Mr. WYNN. Thank you, Mr. Chairman.

Chairman GONZALEZ. I have some questions I will submit in writing. For the moment, I had our staff, professional and interim

director, kind of consolidate our thinking with respect to what you referred to, Mayor, the HOME Program and the return to a \$500,000 threshold from \$335,000, or whatever was the appropriation level. For the first time in 14 years, we have some good administrators. Well, I take it back, because I thought Secretary Kemp did a very laudable job with the limitations he had. Secretaries are not really free agents. As I told Secretary Cisneros, and I told then Secretary Kemp, they are appointed, they are not elected. When an administration—and they all do—whether they are Democratic or Republican, has the overarching OMB actually setting the parameters or the limits. Even Secretaries do not have the choice of appointing their own immediate subordinates, because it is done by the appointing end, a fact that we have got to realize. The budget, as given to us by the President this year is very little different from last year, that is, President Bush's. Let's realize that as well. They are caught here—the President, himself, feels confined by the budget. I feel very disappointed when we had NAFTA and he made all kinds of pledges to get votes for NAFTA, everywhere from bombers to tariffs, because that impacts the budget.

For instance, NAFTA went into effect January 1, and I have been trying to tally the cost of the Treasury in revenues, and it amounts to a pretty penny. Now, that is going to have to come from somewhere. In the budget we have, within which we must work, and which the House approved last year, we do not have much level of leverage. Until the leadership can get away from the shibboleths, such as Gramm-Rudman-Hollins. Do you remember that rule?

Mr. SCHMOKE. Yes, sir.

Chairman GONZALEZ. Who talks about it now? Yet, everybody was prostrating himself and herself before that. Even Chairman Greenspan came up here and said we have got to stick rigorously to Gramm-Rudman-Hollins. Where is it? Despite all of its claims, within the first year of its effectiveness, or soon after fiscal year 1986, its effective date, the debt had increased about \$1 trillion. So there is something wrong somewhere, but we are not going to go into that now.

I think we have got to realize that when we talk about these thresholds, there is something here that makes us pause. We are hesitating in accepting this return to the threshold because we do not want to cut communities out of the program unnecessarily. There is that possibility. It may be a self-defeating acceptance of low appropriations, which I have never accepted, even when I was left alone in the middle eighties with the freeze mania. Everyone, my Democrats, Republicans, froze everything. I said that we are not responding to the needs of this country if we do that, because this country is still growing. I will tell you what I will do, I said to my Democrats, not Republicans. I said I will go along with your freeze, if you will freeze all births in our country, because that means you have a static society and you can handle a freeze.

So, we have gone through all of these self-defeating mistakes, and we are a little bit sort of gun shy because it may be sort of a self-defeating acceptance of low appropriations, which I do not think we ought to accept. I think until we get rid of this perverse priority or perversity in priorities, we will not get anyplace. I am



not smart enough to tell you how to do that, so what I would like to see is a projection of how many communities would be aided at various appropriation levels before making a final decision. I thought that would be a good beginning.

I was going to ask if you could, Mayor, describe the types of activities the city of Baltimore is conducting with the HOME funds and how those would be affected by reducing the budget for HOME in fiscal year 1995. That information will be on the record. When you get the transcript of these hearings, you can review the question and your staff can compile the information. It will be very helpful to us as we get into the markup period here which will not be too long from now.

Mr. SCHMOKE. Very good.

[The information referred to can be found in the appendix.]

Chairman GONZALEZ. Mr. Blankenship, I am sure you are familiar with the cities across the country that are successful in economic development activities under either the CDBG Program or now with the announcement of this administration of the Section 108 Loan Guarantee Program. What I will ask you also for the record is, in your best estimate, why are some cities unable or unwilling to conduct successful economic development projects and what, in that respect, can you show us in Birmingham?

Mr. BLANKENSHIP. Yes, sir.

[The information referred to can be found in the appendix.]

Chairman GONZALEZ. I would appreciate it very much for the record.

Mr. BLANKENSHIP. I will be happy to.

Chairman GONZALEZ. Mr. Hanna, you discussed the need for HUD to revise the HOME regulations. Again, I will not take the time now, but if you could give us some descriptive ideas of the regulations that are hindering the HOME Program and its progress, and how you would suggest that HUD revise or modify the rules. I will be very grateful for the information.

Mr. HANNA. It would be our pleasure.

[The information referred to can be found in the appendix.]

Chairman GONZALEZ. Also, Mr. Henson, in H.R. 3838 we have the administration's request to recapture unallocated UDAGs to be used in conjunction with section 108 guarantees. As the local community development agency is involved in that, the question which I will reduce for the record is, how do you feel about expanding the eligible activities for section 108 loan guarantees? I will remind you that as we were adjourning last November, the House passed a little rider that enabled the city of Pittsburgh to increase the CDBG public services cap from 15 percent to 20 percent, so they could carry out their intended projects. So, we did that as an exception. I do not like to do exceptions. I do not believe in magic numbers, so I am very favorable to revising that and will accept your recommendations in writing.

[The information referred to can be found in the appendix.]

Mrs. Roukema.

Mrs. ROUKEMA. Thank you. Thank you, Mr. Chairman.

Mayor Schmoke, while I was not here for your testimony, I do understand that one of the things you pointed out was something that I would have expressed concern about in an opening statement

had I been here, and that is the question of the LIFT Program and the set-aside. I want you to know that I agree with you in your opposition to a set-aside. I do not think the case has been made, but, then, again, we do not have much information as to the exact dimensions of that legislation, so I will be watching that and I hope you will be too.

Mr. SCHMOKE. Yes.

Mrs. ROUKEMA. I did want to ask anyone who wants to comment, and perhaps Mayor Schmoke is the best one here, but it is an open question to anyone, and that is with respect to the HOME Program and the justification for the reduction being the so-called pipeline theory or argument. How would you refute that? Because I believe that that is not a justification for the drastic cutback in HOME. I think there are good reasons for those projects being on the approval list and waiting for implementation. How, from your experience in the field, would you address that question, and what would you say are the actual projects—the kinds of projects that are waiting for approval, and why would it be premature to thereby reduce funding projected in the future? Yes?

Mr. SCHMOKE. Thank you very much. We, certainly, can point to our own experience in Baltimore with the HOME Program and we recognize that we had some difficulties early on in dealing with the regulation, and there were projects that were backing up. If you had taken a snapshot a few months ago of the program, you probably would have had a great deal of concern. In fact, the commitments of our funds now—the last 2 fiscal years we received about \$17 million. That money—my statistics said that we had already committed \$13 million. My housing commissioner tells me it is actually a little bit more. We have about 557 units of housing, mostly rental, that have been started because of those funds. So, I think that the early stages, and the backing up of the programs were attributable more to working out regulations.

Mrs. ROUKEMA. The normal procedure that you have to address when you are instituting new programs.

Mr. SCHMOKE. Right.

Mrs. ROUKEMA. That is the way it would seem to me.

Mr. SCHMOKE. The investment now is really paying off—that those programs are moving and it is working very well.

Mrs. ROUKEMA. Mr. Hanna.

Mr. HANNA. Yes. The major change that would straighten all of this out we think is if the definition of commitment would be changed in HUD's regulations to what it now is in CDBG. As long as you have a legally binding contract, we think that should count, and right now it does not necessarily count. So, the program itself is really just gaining tremendous momentum. I looked at the figures for the different States and cities that are receiving allocations and there is a tremendous number that are up in the 90 percent range already or maybe even out of funds, as Mr. Henson indicated earlier. Really, the others, I think, would benefit greatly if we could have the same definition for commitment in CDBG and in the HOME Program.

Mrs. ROUKEMA. I am glad you pointed that out. I believe that steps are already being taken to do just that. You are quite correct that that has been an impediment.

Mr. Henson.

Mr. HENSON. Mrs. Roukema, I would just like to echo what the mayor and Mr. Hanna have already said. We were talking earlier about using unallocated or unspent UDAG funds and reallocating them someplace. Every time I hear that term I look forward to it because I figure that it gives Baltimore a shot to be able to go after those funds. So, if we want to recapture anything, we can show you how to spend it. I think one of the things that we have learned is how to spend the HOME funds. As a result, we are out of funds actually, and are waiting now for a new allocation, which we hope to receive in April, which will replenish it for projects that I have already committed to. In other words, we have already committed to projects for fiscal year 1994 funds, which we have not received yet. It did take us awhile, and actually I think about a year ago, if you had taken a snapshot of us at that point, as the mayor pointed out, we would have said that the program is an abysmal failure.

One of the things that we did not recognize early on was the need to actually hire people to help us spend and monitor the funds. I mean, you actually need to get folks onboard, get them knowledgeable of the rules and then get them to work with community groups, particularly with community and nonprofit developers, to teach them how to be able to spend the funds and to be able to actually get them out on the street.

Mrs. ROUKEMA. It takes time. That is precisely the point.

Mr. HENSON. We are at that point now.

Mrs. ROUKEMA. I would also observe too that I am concerned about the level of new construction under the HOME Program. I do not know if anyone addressed themselves to that in the testimony. I am hopeful that we will be coming up with a lower match, a smaller match, a 25-percent match at the local level, and that will help stimulate the new construction. Thank you very much.

Chairman GONZALEZ. Thank you. I want to remind my colleagues that we have a lengthy panel following this; therefore, we are going to stick strictly to the 5-minute rule. I recognize Mr. Mfume.

Mr. MFUME. Thank you, Mr. Chairman. I want to quickly go back and revisit your comments regarding the mayor's testimony as it relates to the threshold and returning it back to the \$500,000 mark. I am particularly happy that you have requested the number of communities that would benefit from that kind of a change. I think that gives us the kind of fuel—it certainly gives us for the record, the kind of documentation we need to fight for it. I understand the mayor is concerned in that regard. It is a concern, Mr. Mayor, that many of us have on the committee and would like to see us move back to. So, I appreciate the chairman's suggestion, and would look forward also to whatever list you might be able to provide of the number of communities that would benefit so that we might be able to have for the record the sort of ammunition, for lack of a better term, that we would need to go out and to fight for this.

Mr. Mayor, you mentioned the expansion of the CDBG Loan Program, and using recaptured UDAGs to do that. I feel very uneasy about that, having fought in the early eighties for UDAG funding, and recognizing how difficult it was to win it and that you had to win it by working hard, doing the right thing, and having the right



proposal and understanding that, in particular, Baltimore pretty much led the Nation under two consecutive Republican administrations by doing the right thing, putting in the right projects, and receiving the grants. So, this idea of doing something else with that money tends to suggest that for cities who have worked hard, played by the rules, and won the grants, who may have some unexpended UDAG money, that they are going to have to be in a situation now of watching it go back into a general coffer, for lack of a better term.

I understand your desire, on behalf of the conference, to want some direction. Could you give the subcommittee and for the record an idea of the direction that you think ought to be given to urban areas with respect to the utilization of unexpended UDAG money?

Mr. SCHMOKE. Well, I was, Congressman, really arguing for some kind of rule of reasonableness that would suggest that cities would know that you cannot keep these funds unspent forever and ever—that there would not be an indefinite period, but there would be some reasonable period that would allow cities to look around for projects. There may be things that are coming down the road 4 or 5 years. You know you are developing one neighborhood, and there will be a related project, but it is just not within the next 2 years. So, I guess we are looking for some possibility of allowing the cities to keep the funds. Yet, those people who have been abusive—that the money could come back into some other centralized pot.

Mr. MFUME. So, you just need greater latitude, and certainly a little more time to do what you would have done anyway—

Mr. SCHMOKE. Correct.

Mr. MFUME. Except under a window.

Mr. SCHMOKE. So, those cities, as you mentioned, that are doing the right thing, would go ahead and would not be penalized for taking a little bit more time with those unspent funds.

Mr. MFUME. Mr. Mayor, and perhaps even Mr. Henson, HUD appears to be leaning toward—some say favoring—regulations that would allow people who are addicted to drugs and/or alcohol to live in public housing that is currently reserved for senior citizens. Can you tell us just a bit the kind of problems that creates for you in terms of day-to-day managing and an ever-increasing situation of infinite need and finite housing?

Mr. SCHMOKE. Congressman, I am so glad you mentioned that point. It has been a source of great concern by senior citizens in our city. Everyone wants to do something to provide housing for people with the disability of being a substance abuser, whether that is alcohol or currently illegal drugs. We think that the best approach would be to allow us to provide the housing for the younger addicts separate from the senior citizens. It is disruptive of the buildings. It has caused a lot of concern with drug trafficking in the buildings. Some of the friends of the substance abusers have been able to get into the buildings and establish kind of beach-heads for sales of substances, and it has just been disruptive of the whole quality of life in the buildings. We have had a lot of conversations with our senior citizens about this and that is one of the things that they have asked us to support—having these senior or elderly-only buildings, if at all possible.

Mr. MFUME. My time is short, but I do have just one other question. I thank you for that response.

Mr. Henson, on page 3 of your testimony, you talk about the cap that is in place now on public service—that it is limited to 15 percent of the community's annual grant, plus income, and that you and NCDA would like to see that moved to 20 percent. Could you tell the subcommittee what sort of programs benefit—I mean, are we talking about literacy programs, or are we just talking about a whole slew of programs that would benefit just from that 5 percent lift?

Mr. HENSON. We are talking about in Baltimore of specifically programs that help people to empower themselves. These are, to a large extent, community programs that allow community organizations to hire facilitators—somebody to help them put projects together, somebody to help them move things along, but also things like literacy programs that help to teach adults, for example, to read. It allows us to supplement budgets that we need in order to hire teachers to run those kinds of programs. This is a very important effort, if we are going to move people past the level where we are right now.

Mr. MFUME. Let me just ask, as the chairman asked on his earlier question to the mayor, how many—not necessarily how many communities—how many types of programs or what level of service do you see increasing nationally? I mean, do you see this affecting every city that is involved—this 5 percent increase on the cap?

Mr. HENSON. I had some concern as to whether or not 20 percent was the adequate amount. If I look at the need in Baltimore, it is probably closer to 25 percent to be able to help communities. We are limited by the amount of funds, and we are limited really in being able to have the flexibility that I believe was intended in a program like CDBG.

Mr. MFUME. OK. Mr. Chairman, thank you for being so generous with the time. I appreciate it.

Chairman GONZALEZ. Thank you very much.

Mr. Bereuter.

Mr. BEREUTER. Mr. Chairman, I need some time to go over it. I would yield to a Democratic member at this point, if that is all right?

Chairman GONZALEZ. All right. Mr. Wynn.

Mr. WYNN. Thank you, Mr. Chairman. I really just have one question I would like to ask Mr. Hanna. On page 3 in your testimony, you indicate that there was some concern that there might be a formula change or there might be a proposal for a formula change that would render certain prior recipients ineligible, based on the perception that they might be too wealthy or not have a need. This seems to strike at a lot of the working class families in my district and in the county that we both represent. Would you elaborate on that point a little further, please?

Mr. HANNA. You are referring to the example on CDBG's funds?

Mr. WYNN. It is on page 3—the indication that the study that was undertaken regarding the adequacy of the existing CDBG formula may recommend certain changes in the current entitlement formula.

Mr. HANNA. The National Association of Counties feels that that is really a red herring and that it should not eliminate some jurisdictions that may be somewhat better off than some that are in worse shape. Because, as I stated in my testimony, if you are poor in a wealthy jurisdiction, you are really doubly poor. I think you feel it even more than you do than if you are in a neighborhood, for example, where everyone is poor. There is some community of misery. When you see next door that things are well off, then I think you feel as though life really is at its lowest ebb.

So, despite the fact there are affluent communities that in general are well off, they almost always have pockets where the need is just as great or greater than it is in other more general areas. So, we think changing that formula would be a mistake.

In addition, the CDBG Program is one that comes from the taxes that are placed on everyone. We think that everyone should see some return for that. So, the final point I would make is that, if the need is less, then that will be reflected by the present formula. There will be less funding available. So, I would hope—and the National Association of Counties hopes that you will not change the formula.

Mr. WYNN. OK. Thank you very much, Mr. Hanna, and Mr. Chairman. That is all I have. Thank you.

Chairman GONZALEZ. Ms. Roybal.

Ms. ROYBAL-ALLARD. Thank you, Mr. Chairman. I just have a followup question for the mayor, with regard to the UDAG funds. You had said, in response to a question by Congressman Mfume that you felt that it would be unfair to deobligate those funds and send them back because there were instances where there were plans or programs in place that just were not ready to expend those funds. You also felt that where there were abuses that that needed also to be addressed.

My question is what kind of guidelines or suggestions would you have that would be fair in determining when it was just a matter of stalling and when actual abuses were taking place where that money then needed to be pulled back?

Mr. SCHMOKE. I think we would probably have to work with the committee and the staff at HUD to come up with guidelines that might be applicable to the cities all across the country. I was thinking of just some rule of reasonableness that you would ask for in each year for the cities to explain what—not only how you use the money but what are the plans for the future. If someone simply came up with things that were incredibly weak, you know, you would ask them to justify it. If there is no justification, they would bring it—bring the money back to the central fund. It would be difficult I think to do a bright or a thick set of guidelines that would cover every city. So, that is something that would have to be up for further discussion, but, some rule or—

Ms. ROYBAL-ALLARD. I guess what I am asking is—

Mr. SCHMOKE. Reasonableness I would think could be defined.

Ms. ROYBAL-ALLARD. Is there a reasonable time? I mean, would it be reasonable to have a city that could come up with a good excuse, you know, year after year? We are getting into 5 or 6 years.

Mr. SCHMOKE. I think—

Ms. ROYBAL-ALLARD. Should there be a cutoff point?



Mr. SCHMOKE. I think that there would have to be some cutoff, I mean, at some point, if a project is not moving. The type of example—I was just thinking about my city where we knew that in certain neighborhoods we were going to do it in a kind of building block fashion that we were going to do some community or neighborhood development here and there was an industrial area nearby that might benefit from some investment, but we were going to take it in stages. Well, if HUD knew that—knew there was a plan there, I think that there would be some reason for them to say, OK, we will let you hold on to the funds. If they saw no vision, and absolutely no planning, but just a lot of rationalization, that would be a reason to bring the funds back into—

Ms. ROYBAL-ALLARD. What about a plan but no action? In other words, the plan is in place, but there are no negotiations, nothing happening? Would that be hard to determine?

Mr. SCHMOKE. Yes. Sometimes because, for example, we started out—I have been mayor now 6½ years. There were a couple of areas in town where we had a plan and all of a sudden the recession hit, and it was purely economic-driven. It had nothing to do with the players involved, either the government, at any level, or the developer. It was just the recession. Again, there are some areas where you can distinguish, I believe, inaction from true vision and just a lack of progress for reasons beyond their control. It would be difficult. I would hate to see a clear line that says it all most come back. Also, I would not want to see cities assuming that they could just keep it indefinitely regardless of their action.

Ms. ROYBAL-ALLARD. That would be difficult to do?

Mr. SCHMOKE. It would be difficult, yes.

Ms. ROYBAL-ALLARD. OK. Thank you.

Chairman GONZALEZ. Thank you, Ms. Roybal.

Are you ready? OK. Mr. Bereuter.

Mr. BEREUTER. Thank you very much, Mr. Chairman. Gentlemen, thank you very much for your testimony. I have been trying to go over it since I came in late.

Mr. Chairman, I ask unanimous consent that my opening statement be made a part of the record.

Chairman GONZALEZ. Without objection, it is so ordered.

[The prepared statement of Mr. Bereuter can be found in the appendix.]

Mr. BEREUTER. I am interested, gentlemen, to see if you have any reactions to a new GAO Report on the use of economic development—the use of the CDBG funds for economic development activities. In looking through the entitlement cities, on average, entitlement cities, such as those that you represent, for example, from Baltimore, you are using on average 74 percent of the funds for housing, for public works, and for planning and administration, 11 percent currently are authorized for economic development activities. There seems to be a larger push now on that subject from the administration. Yet, the GAO Report says grantees may not be consistently meeting two key requirements that govern the proper use of grant funds. First, some economic development activities have not met the requirement that at least 51 percent of the jobs created or retained must either be taken by or made available to low- or

moderate-income people. Second, assistance provided to some for-profit businesses has not met an appropriateness test.

In anticipation of the new HUD regulations, which will come out this spring, encouraging, as I understand it, larger use of CDBG funds for economic development, what do you think about the existing requirements that apply to you? Are you worried that you are going to have your public works and planning and housing needs pushed out by economic development priorities of HUD?

Mr. SCHMOKE. Actually, I have not seen that particular report. I have talked to a number of local businessmen about these requirements. We use our CDBG funds for economic development just on the economic development by contracting with an organization called the Council for Equal Business Opportunity, that tries to find—acronym CEBO—that tries to find small businesses in areas that fit the regulations that will impact employees that again fit the regulations. It has been fairly successful. The only problem is that once businesses get to a certain threshold level of success, we have to pull the block grant funds, because they are too successful. They are out of the guidelines. Yet, they are right at the level that they are about to really make a substantial impact in the community, and we would like to continue our investments there. We have been a little bit worried that we might get a penalty—have to pay a penalty to HUD for continuing to invest in those businesses.

I do not think the direction that the administration is going at this point threatens other uses of the funds. We think there is a balance that can be obtained. We are generally supportive of the direction that the administration is going.

Mr. BEREUTER. Well, that is a good statement. Mayor Schmoke, would you guess that you are about at that 11 percent range of CDBG funds for economic development, or less, or more? What would you think?

Mr. SCHMOKE. We are about there.

Mr. BEREUTER. You think so.

Mr. SCHMOKE. Commissioner Henson is my housing commissioner, so he would know better than I would.

Mr. BEREUTER. What would happen if you were sort of pushed by mandate or indirect mandate to spend 20 percent on economic development?

Mr. HENSON. I think we are waiting right now for the new regulations. I think what has happened over the last 7–8 years is conflicting signals coming from the previous administration, in terms of what you can use—what is economic development and how you use CDBG funds for economic development. The mayor alluded to business development and the problems that are caused there. The problems are run into whether or not employees of that business would be residents of an area that was CDBG-eligible, or whether or not the employees made a certain amount of money or whether or not the owners made a certain amount of money. All of these have caused a pall on the creative use of CDBG funds for economic development. So, we are looking very much forward to a set of regulations that will allow us to work with it.

Mr. BEREUTER. Thank you. I have got the orange light. I would ask Mr. Blankenship or Mr. Hanna if you have anything to say on this subject?

Mr. HANNA. Yes. I would like to add just a word. Certainly, HUD's history has been schizophrenic in regard to economic development. I have never felt any encouragement from them in the past as far as economic development was concerned. NACo just finished its annual legislative meeting a couple of weeks ago here in Washington at which HUD spoke. They named their five priorities in the order in which they named them. Economic development was number five. It was still at the bottom of the list. I do not think that we feel threatened. I think the emphasis on the use of CDBG funds will continue to be on infrastructure. We will look for those targets of opportunity that we can really do some good on economic development because it is, of course, a basic underlying goal of any county or city. It has been really interesting to see somewhat of a change from the leadership in the Department.

Mr. BLANKENSHIP. Congressman, while that may be true in the counties, I think the cities have a different opinion about it. Economic development in the city of Birmingham is number one. To push anything besides that would be a detriment to the city of Birmingham itself.

Now, in order to understand what Birmingham is like, you would have to see Jefferson County. Jefferson County is the county seat of the total city. You have 35 municipalities that operate right out of Jefferson County, Birmingham being the largest in the State and the largest in the county seat. What we do not have there is the real tool of the economic development as it ought to be. We are getting by. We are taking parts of our monies and using some for economic development, and we have to have job creation and other forms to bring it together. So, while the county may be, and the counties in this country may be—the cities in this county are suffering and do need economic development as a stimulus to their whole spectrum.

Chairman GONZALEZ. The time of the gentleman has expired. Mr. Vento.

Mr. VENTO. Thanks, Mr. Chairman. I think that schizophrenia is sort of due to the immediate problems you face and how far you have to back up in order to deal with economic development. It is not always apparent how one relates to the other. Just like the recreational facilities in CDBG Program, we were getting criticized about a year or two ago. Today we are trying to do something positive in terms of crime prevention, and so we are looking at recreational facilities to help deal with that 10- to 20-year-old-age group. That is the eternal argument.

I know that the cities are not going to become instant entrepreneurs. I do think though that the Secretary's effort is to try to bring the focus of this good program back into an economic development mode. I know that most of that risk has to be taken by the private sector. If we are going to solve the problems of our communities and urban areas especially, I think it is imperative that the private sector be engaged. I think a big start and a big example is the announcement yesterday, Mr. Chairman, which was the commitment by Fannie Mae to in fact do what they do best, and that



is to give credit to poor people, in terms of homeownership where it is possible, as an example of the types of resources and focus that is necessary.

There are a lot of questions that come to mind, but one that may be more important than is immediately apparent, is the sort of argument over the pipeline that is going on. What we are faced with, whether it has been Panetta, a friend, or someone that we thought of as being less friendly, was that there is money in the pipeline ready for programs like CDBG or HOME, and, therefore, the appropriation of money this year can wait while that money is being expended.

Do you have any ideas about how to streamline this process so we can more immediately use that money so it becomes more of a turnkey operation? I think that would mean that it be spent or committed quicker, and we would not have that pipeline problem and argument to face up to. I do not know if you are prepared to answer that, Dave. If you have any quick ideas about it, I would appreciate it. Obviously, it might be something you would want to do in writing. Mayor Schmoke, did you have anything?

Mr. SCHMOKE. Well, I did agree with Mr. Hanna's comment about how you define commitment funds, and make sure that the HOME funds and the CDBG funds have the same definition so that we can move projects along. I mean, we have been able to work on this pipeline issue a year ago. We did have projects backed up. It was a terrible problem, but we were able to work with HUD and get projects committed. The developers are moving ahead. The various community organizations and nonprofit groups that were involved with us have been trained. So, I think that the pipeline issue usually is going to follow any new program; but, after it has been in existence for a while, we just should not have that problem.

Mr. VENTO. It runs across the spectrum.

Chairman GONZALEZ. Would you yield?

Mr. VENTO. Yes, Mr. Chairman. I would be happy to yield.

Chairman GONZALEZ. OMB has just announced that it goes along with HUD.

Mr. VENTO. Well, I do not know if I can translate as quickly as you, but I will try to.

Chairman GONZALEZ. That goes to what you were asking about.

Mr. VENTO. OK. Yes. Well, I was not aware of it. I know that the director, in explaining matters to us earlier at one private meeting indicated that this was the rationale they are using. I just think that obviously it is in our best interest to make certain that those dollars are recognized as being expended and that we quickly get them. If we are going to put money into CDBG or something, how much of an immediate stimulus can it have? That is another concern we have had in terms of that. The Appropriations Committee, of course, uses a spendout idea in terms of what the cost of the programs is.

One more point I wanted to get in, and I want you to think about this too is this issue of convergence. So often we have been bricks and mortar oriented, in terms of what we do. So many of the programs now, whether it is community development, or housing, or the HOME Program, are really dealing with what I would characterize as more of a social service orientation in terms of what is

happening. As an example, the programs on public housing that were housing the elderly are now housing the frail elderly, and they need a lot more services. The nature of your populations in many urban areas is changing from manufacturing jobs to minimum wage, single parent families. So, I think you see this, and it is a question of how we can engage without putting all of the funds or channeling all of the funds through HUD. I look at their budgets, and a lot of it is turning into what I would characterize as soft dollars or not hard dollars for economic development programs and/or for bricks and mortar-type of programs. I guess it is all right. The question is we are not really bringing this all together in the way I think that is most advantageous. We are taking a lot of things, incorporating them into housing budgets that normally have not been there. I do not know if they should be there or not. I would like any comment by any of the witnesses on that, and/or if they want to respond to it in writing.

Mr. SCHMOKE. I would like to respond to it a little bit more in writing. I guess we have experience with a couple of our neighborhoods where we are trying to really transfer communities. The program that is really leading the way is CDBG. We recognize that the one thing that you cannot do is just put new houses in a poor neighborhood and walk away and assume that you have succeeded. So, we need all of these other complementary services, whether it is recreation, as you mentioned, literacy programs, family services, health, all of those things that come together. We have been able to build some of those physical facilities that complement the housing using the Block Grant Programs. So, if we are going to have true neighborhood transformation, we have to have a flexible tool to deal with all of those complementary services, and block grant has allowed us to do that.

Mr. VENTO. Mr. Chairman, my time has expired. I would say, from the inception, in 1974, the Community Development Block Grant Program has set up neighborhood councils. So, this sort of idea of trying to involve the community—and it has been—in fact, it has become important in my community. I do not know in your community, Mayor, but I know in mine where we had had community organizations before, they now have oriented themselves so the Community Development Program really funds the neighborhood councils in most communities. So, it has replaced that. I do not think that is recognized by most individuals who want to eliminate the program, in terms of the importance it plays in providing that sort of outreach.

Mr. Chairman, my time has expired. I would be most interested in the sharing of problems and some solutions to those questions that I raised today with this series of witnesses that represent the county and local governments.

Chairman GONZALEZ. They have presented the subcommittee with very good and thorough written statements.

Mr. VENTO. I read them.

Chairman GONZALEZ. They make very good recommendations. Some of them hit along the line you discussed.

Well, gentlemen, unless you have an additional statement you want to make at this point, we, again, express our profound thanks for your very valuable help, and cooperation, and time.

Mr. HANNA. Thank you, Mr. Chairman, and members of the subcommittee.

Chairman GONZALEZ. Thank you.

Our next panel consists of Ms. Ruth Crystal, who is a board member of the Coalition for the Low-Income Community Development; Mr. Kenneth Dobson, vice president of the Commercial Development Division of the Detroit Economic Growth Corporation, Detroit, Michigan, on behalf of the National Council for Urban Economic Development, Washington, DC; Ms. Patricia Payne, the deputy secretary of the Maryland Department of Housing and Community Development, on behalf of the Council of State Community Development Agencies, Washington, DC; and Mr. Henry Flores, executive director of the Texas Department of Housing and Community Affairs, in Austin, Texas, on behalf of the National Council of State Housing Agencies.

We want to thank Mr. Flores and the others who have helped us before with your presence before the committee.

May I ask if any of the panelists have time constraints, or planes to meet?

[No response.]

If there is no objection, I will recognize you in the order that I introduced you, with Ms. Ruth Crystal, from the Coalition for Low-Income Community Development, first. Ms. Crystal. Excuse me. Since time is on us, we apologize for the lateness, but we did have a very concentrated hearing, and then we had an interruption. I want to avoid another one caused by having votes in the House. Your written testimony will be in the record as you gave it to us. I would suggest that you summarize your statement and perhaps we could, if it is possible, have as succinct an oral statement as you could provide the subcommittee. Your cooperation will expedite everybody's chance to be heard.

Ms. Crystal.

#### **STATEMENT OF RUTH CRYSTAL, BOARD MEMBER, COALITION FOR LOW-INCOME COMMUNITY DEVELOPMENT, BALTIMORE, MD**

Ms. CRYSTAL. Thank you, Mr. Chairman. My name is Ruth Crystal. I am speaking to you as a board member of the Coalition for Low-Income Community Development. The other hat I wear is the executive director of Maryland Low-Income Housing Coalition. I appreciate the opportunity to share with you our views as you begin the process to reauthorize the Community Development Block Grant.

CL-ICD is an active coalition of 1,400 grassroots and national organizations that are interested in federally funded block grant programs and economic development issues. The coalition was organized to preserve CDBG funding and initiate and promote legislative and regulatory changes to ensure that low-income people benefit from Community Development Block Grants. I think that is what makes us different from a lot of the other people you have got up here testifying this morning.

The coalition provides local communities with information about the Block Grant Program and technical assistance on how nonprofits can apply for funding or monitor how funds are spent in



their communities. Let me try and briefly summarize my testimony in three areas. I want first, to talk a little bit about H.R. 3838. I want to talk about some of the HUD initiatives, as far as we understand them. I want to talk about a particular initiative that we have that we would love to see incorporated into CDBG reauthorization, and then I want to comment on the LIFT proposal and the public services cap that I have heard some of the other people testify on so far.

In terms of the authorized appropriation, we were very pleased to see the \$4.5 billion and the \$4.6 billion. We think it is the minimum level that is necessary. In terms of the section 108 loan guarantees, we are still concerned about the lengthening from 6 to 20 years the amount of time that a community can borrow money and the amount of money that can be used for loan guarantees increasing from 3 to 5 years. Our concern is whether a community could really be mortgaging its CDBG future on questionable loans.

We have an example, and I am sorry that the mayor and the housing commissioner from Baltimore have left. I was hoping they would be here when I got to talk about them. Where, in fact, we had a 108 loan that bellied up, and some money that could be going into neighborhood projects now each year must go to repay that loan. We would like to see CDBG going as much as possible into neighborhoods rather than downtown hotels.

In terms of the 108(q) program, the program to link UDAG money into the 108 program, we are delighted to see that you are keeping the CDBG requirements, especially the requirement that it benefit people at or below—that 70 percent of it be for people at low- and moderate-income. We are not entirely convinced that this is the very best use of UDAG recaptures. Increasingly, we hear talk about the need for the CDBG Program to be used in the administration's welfare reform efforts. We wonder if the \$100 million or so of UDAG recapture might not be better used for additional job creation or training programs in the area of welfare reform rather than have the base CDBG Program hit at a future point for welfare reform.

Another section of H.R. 3838 extends section 108 loan guarantees for Colonias. We, obviously, approved that, with the one recommendation that we be very sure that we involve the people that live in those communities, not just the State and local governments and the for-profit consultants in the planning for the spending of that money.

Additionally, CL-ICD would like to suggest to the subcommittee another area to be considered as an eligible activity. We believe that the section 108 tools should be available for financing community facilities, such as day care, job training, and primary health care facilities. These facilities can be financed with regular CDBG funds, but not with section 108. We would like to see section 108 brought more in line with CDBG in this area.

Let me move on. I am trying to skip as quickly as I can. I can certainly answer questions when I am done.

Several people have talked to you about HUD's proposal for LIFT, so I am not going to go through our concerns about taking \$200 million from the formula programs, assuming you find \$200 million someplace other than the formula programs. We still have

some concern. One of the concerns is that as HUD describes it, it leaves State and small city programs out and it is only for entitlement areas.

A second is that, even within entitlement areas, large entitlement areas always seem to win in competitive rounds—that, if we are going to do something like this, we do it in a tiered approach, with a certain portion of the monies left for large-, small-, and medium-sized entitlement jurisdictions.

Last, our interest in the LIFT Program is centered on it being a neighborhood-oriented economic development program. Because economic development is an activity that is funded under CDBG now, if we are going to add a special competitive program, we would really like to see it targeted to neighborhood economic development. This would mean that residents of communities, as well as neighborhood nonprofit organizations should be directly involved in planning and that neighborhood residents should benefit directly from the projects funded through jobs and the receipt of credit for residential business ventures. Economic development should not be defined as downtown development, if we are going to have this special program. The community viability fund is another HUD initiative that we read about in the budget, although, we have not seen the details yet. Basically, it is described as a program to support comprehensive neighborhood citywide and regional planning.

These are concepts that CL-ICD strongly supports. We just hope that the committee seriously considers the need to involve grassroots people in the planning for it, and that capacity building be part of it.

Part of this program talks about incentive grants. I have got two comments about the incentive grants. One, as they are described, they are only for government entities. If we are going to give incentive grants to try and do neighborhood planning and community planning, we ought to make nonprofits, as well as government entities eligible.

Second, while it is wonderful to fund innovative programs, it might be very forward-thinking of the committee to start thinking about holding back a small portion of the money to replicate innovative programs—when a program is successful, to be able to see if you can lift it from one jurisdiction and successfully replicate it in another.

The third and last HUD initiative that I wanted to comment on was the \$100 million Colonias Assistance Program Initiative. Let it just suffice to say that we are in support of it.

Our idea that we would like to see added to the CDBG reauthorization is a citizen monitoring program. HUD would like to ferret out abuses of the CDBG Program, but will never have the staff that is needed, particularly in the times of cuts and downsizing. Both the strength and weakness of the CDBG Program lies in its flexibility. Flexibility allows local units of government to implement solutions that directly attack local programs; but flexibility also permits abuses and politically popular choices that are not helpful to the program's intended beneficiaries, for the low- and moderate-income people.

CL-ICD believes that greater involvement by citizens, especially lower income people, in scrutinizing what the CDBG Program

funds is the very best assurance that only appropriate programs are indeed funded. There is nothing illegal or inappropriate about funding recreational programs like parks and swimming pools. I think I am saying something that Mr. Hanna said earlier. The question is, is that what local citizens want, not is that what city hall wants; but, is that what the people in that community want. If that is what their high priority is, and it is an eligible activity, then let's go for it.

We strongly recommend the implementation of a CDBG citizen participation project to strengthen the effectiveness of CDBG-funded activities and to ensure meaningful participation of low- and moderate-income persons, with funding expenditures ultimately benefiting low-income population. Although we have 20 years of experience with the CDBG Program, it is still difficult to point out how funds have benefited low-income people. It is important to obtain the information needed to analyze the most effective uses and case studies of block grant funds.

We have discussed how such a project would work among ourselves on the CL-ICD Board. We have talked to some staff over on the Senate side. I know this is not the appropriate time, but we would love at some future time to try and talk about how we see such a concept working with you.

My mayor and housing commissioner, because I am a resident of Baltimore City—I will see if I can finish in 30 seconds—talked about public service cap. Our concerns are three-part in that. First, the latest study by HUD's annual report to Congress showed that nationally only 9 percent of CDBG grants are currently being spent on services. So, we think there is some money to go before we were really pushing that cap.

Our second concern is, in this great push with crime, that the money will be used not in communities, as Commissioner Henson described, but to increase police forces. We do not think that is the best use of CDBG funds. We hope that communities will use it creatively to fund neighborhood public service projects, ask for exceptions, the way Pittsburgh did. We do not think it is time yet to increase the cap to 20 percent.

The Community Development Block Grant is one of the most important sources of Federal funds for low-income communities. CL-ICD is interested in working closely with this subcommittee to ensure that the flexibility needs of the program are evenly measured against the need for accountability within the program. We are concerned that the needs of low-income people and communities are considered as a priority by State and local government, as well as by Congress and HUD. Thank you.

[The prepared statement of Ms. Crystal can be found in the appendix.]

Chairman GONZALEZ. Mr. Dobson.



**STATEMENT OF KENNETH DOBSON, VICE PRESIDENT, COMMERCIAL DEVELOPMENT DIVISION, DETROIT ECONOMIC GROWTH CORP., DETROIT, MI, ON BEHALF OF THE NATIONAL COUNCIL FOR URBAN ECONOMIC DEVELOPMENT, WASHINGTON, DC**

Mr. DOBSON. Thank you, Mr. Chairman. Good morning. My name is Kenneth Dobson. I am vice president of the Detroit Economic Growth Corporation. It is a public/private development facilitator within the city of Detroit. It engages in both industrial, downtown commercial, and neighborhood commercial development. Since 1978 it has facilitated or it has leveraged about \$690 million of various types of public funds to raise about \$2.4 billion of private funds throughout the spectrum of development within the city. The organization focuses on job and tax base producing activities to help round out the health of a community. Hence, we define community development as being part and parcel of economic development also.

I would like to say thank you for the opportunity to testify before you today on behalf of the National Council for Urban Economic Development, known as CUED. CUED is a nonprofit membership organization representing over 1,200 economic development professionals from cities of all sizes and regions throughout the country. CUED's membership includes nearly one-third of the CDBG grantees and more than 900 CDBG subgrantees. I am a longstanding member of CUED. I serve on its board of directors, on its executive committee, and on its legislative and Federal program committee.

We would like to compliment the chairman, the subcommittee, and the administration for your continued support of the Block Grant Program. We think it is absolutely essential that it not only be continued, but that it be possibly strengthened. Detroit is very, very fortunate, particularly of late, in having a new mayor elected, Mayor Dennis Archer, who is a very, very innovative, creative, and energetic man. We are very fortunate in having had the President and the Vice President and the economic leaders from throughout the world at the G-7 Conferences in Detroit. There is absolutely nothing more critical to the city of Detroit and to other cities throughout the country, we believe, than the continuation of the Community Development Block Grant Program and the expansion of that program, which will include some of the recommendations that we would make.

We believe that economic development is a part of a comprehensive community development program. Therefore, we believe that economic development has a legitimate and a profound role in the use of block grant funds. The intent of the CDBG Program is to integrate both of them within one strong community or one community development effort. Most of CDBG member cities find that while the CDBG is a successful program in general, the requirements associated with the use of those funds for economic development could be made much more user friendly.

Many times, as was indicated by panelists who spoke previously, it is very, very difficult to match the requirements of the Block Grant Program with the requirements associated with attracting, retaining or expanding businesses that will provide jobs for people for whom we are providing housing. As the Congressman men-

tioned earlier, a recently released GAO Report confirmed that entitlement communities' economic development expenditures have declined.

Nationally, the GAO's report shows that economic development expenditures dropped from 13 percent to 8 percent from 1987 to 1992. Furthermore, less than 2 percent of the grantees accounted for nearly half of all of the block grant spending on economic development. From CDBG's experience, we know that a substantial number of grantees have stopped using Block Grant Programs for economic development largely because of the burdensome nature of the requirement. Now, all of this is happening at a time when this country is losing in excess of 1 million jobs a year through downsizing. Many of the jobs are in communities that we are creating new housing for. It is our belief that as we create the new housing and the new services that are being provided for people in neighborhoods that are block grant-designated, that we also have to make the requirements easier for block-grant eligible jobs that can be provided for these people as well.

Another study done by CUED found that businesses that export their goods and services from a community, such as manufacturing and business services, need fewer block grant dollars per investment, per job created for businesses in neighborhoods than for those that provide goods and services. In other words, yes, we need the neighborhood shopping centers. We have built three in Detroit. As a matter of fact, one was built using block grant money as a gap filler. It was a \$5 million shopping center. We needed \$1 million of block grant money to round that shopping center out. It is 72,000 square feet. It employs people from the neighborhood. It contains one of the largest shopping centers in the State of Michigan, and it is community-owned. More important than that shopping center, it gave rise to the construction of a community center in the immediate area and, more than that, it has given rise to almost 1,000 new housing units of various description that have been built in this area. By the way, this is the site on which the civil disturbances occurred in the city of Detroit in 1967. The community today has been completely rebuilt. It is a comprehensive community with economic development generators, with community ownership, with housing, and with jobs.

I would like to summarize CUED's recommendations concerning current block grant legislation. The first is to define job retention as an important priority in the Block Grant Program, so that communities can provide assistance to businesses that already employ predominantly low- and moderate-income persons. In order to save jobs in distressed communities, economic developers need to take an approach to business assistance that focuses on helping the companies stay competitive. Both companies that are currently within those neighborhoods or communities, as well as companies that we are trying to attract within those neighborhoods or communities, or companies that are located someplace else in this city who we have negotiated to hire people from those areas.

The reality is that, once a company is eligible for assistance, under current HUD guidelines, it is often too late to provide any meaningful assistance to protect the jobs or to generate the jobs in question. As such, Congress should direct HUD, in our opinion, to

provide communities with greater flexibility in assisting existing companies that may not be hiring more employees, but that may need to remain in their current location—that may need to expand or improve their competitive position.

Second, we feel that Congress should adopt the required appropriateness analysis to make it more realistic to projects typically supported by block grant. In our written testimony, we state specific concerns that the subcommittee should address as part of the technical corrections to be made in the 1992 amendments. In general, those corrections focus on improving the program's flexibility and allowing grantees to evaluate their performance, based on locally determined and HUD-approved standards.

Third, HUD should be allowed to use training funds for joint training sections of Federal grantees, of subregional staff, and of subrecipient staff to undertake economic development activities. Because of the legal limitations on training resources, most of the training and technical assistance targeted to grantees and subrecipients must preclude HUD's staff participation. We believe that the HUD field staff training is very, very important, so that HUD, the city, and the grantee, the local communities, can all operate on the same wavelength.

Finally, Congress should reinforce the intent of the 1992 Housing and Community Development Act by directing HUD to presume benefit to low- and moderate-income persons for activities or residents employed in a target area. The 1992 act added a new subsection that allowed grantees to presume benefits to low- and moderate-income persons, if an employee lives in or if the business is located in a census tract that meets the Federal enterprise zone eligibility criteria. The subcommittee should change the words "enterprise zone," we believe, to "empowerment zone" or "enterprise community," to reflect the law passed in 1993.

Furthermore, Congress should direct HUD to certify as eligible for designation any community whose demographics are eligible and which has completed the strategic planning process in a satisfactory manner as required under the empowerment zone and enterprise community application process. Many businesses state that the prime reasons for locating a business in an area that is tied to the general quality of life—

Chairman GONZALEZ. Mr. Dobson, will you please yield to me at this point?

Mr. DOBSON. Yes, sir.

Chairman GONZALEZ. We have about 2 minutes to record a vote. Is every one of the recommendations you have been reading here in your prepared text?

Mr. DOBSON. Yes.

Chairman GONZALEZ. They are very good. So, I think we can just refer to those.

Mr. DOBSON. That is fine.

Chairman GONZALEZ. We will then recess for about 10 minutes to allow the members to vote and then come back.

Mr. DOBSON. That is fine.

[The prepared statement of Mr. Dobson can be found in the appendix.]

[Recess.]



Chairman GONZALEZ. Will the subcommittee please come to order.

I believe we were proceeding to recognize Ms. Payne.

**STATEMENT OF PATRICIA PAYNE, DEPUTY SECRETARY, MARYLAND DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT, ON BEHALF OF THE COUNCIL OF STATE COMMUNITY DEVELOPMENT AGENCIES, WASHINGTON, DC**

Ms. PAYNE. Thank you. Mr. Chairman and distinguished members of the subcommittee, good afternoon. I am Patricia Payne. I am deputy secretary of the Maryland Department of Housing and Community Development.

I am here as a member of the executive committee of the Council of State Community Development Agencies to testify on H.R. 3838 and the Reauthorization Act. Thank you, subcommittee, for your support of housing and community development. We are very pleased with the authorization levels for CDBG and HOME in H.R. 3838.

I am here specifically to talk about the Community Development Block Grant Program, HOME, and the CHAS. By the way, you asked if there were any pressing engagements. I have to tell you that the legislature is in business in Annapolis and they are dealing with my budget and so I hope it is still there when I get back.

To start with the Community Development Block Grant Program, let me tell you a little bit about why we like it so much and how it fits into Maryland's strategy. In Maryland we have all of our housing and community development programs consolidated in one State agency. That includes the Housing Finance Agency, a mortgage insurance company, State-funded housing and community development grant programs, historic preservation, and all of our Federal grants for housing and community development including HOME and CDBG.

We have basically what we call an opportunity-based—dare I use the word entrepreneurial approach—which is that we look for the opportunities on the local level with the local governments who have a need, and they all have housing and community development needs regardless of their degree of affluence. When they identify these problems, we make our full range of tools available: State-funded loan and grant programs; Federal resources; tax-exempt financing; mortgage insurance; whatever it takes to solve the problem.

An example of how this partnership works—we very recently worked out a partnership with the city of Baltimore, initiated by the mayor, who came to us and said he had four public housing highrise complexes that are not working in the city of Baltimore. The Mayor wants to reconfigure them and downsize them, reduce the number of units by 40 percent on site. The city needed State money to finance the replacement units offsite. Right now in our budget we have a capital budget commitment of \$65 million over a 7-year period to do exactly that. The city identified the need. They got the Federal resources. We put the State dollars in. That is an entrepreneurial approach to solve a problem.

CDBG is a key tool that we have to work with local governments because it is flexible and decentralized, and it can respond to these kinds of needs. We have used it in a variety of ways.

From a State perspective, we are very happy with H.R. 3838 because it keeps this flexible and decentralized approach through its proposed amendments to the 108 Program which COSCDA supports. We must be able to use CDBG effectively for economic development. We applaud HUD'S response on these issues in the 1992 Economic Development Amendments. HUD is going in the right direction in what they have done and are planning to do. This is essential because we have to deal with this core reason for many of the problems we see in our communities.

However, we are a little concerned about the LIFT proposals. We do not believe they should be funded as part of CDBG. We would like to see States eligible to participate, however.

Now let me speak a little bit to HOME. The role that HOME plays in our own State's strategy is that it is the only tool we have for serving very low-income households, and by very low income I mean \$15,000 a year and under. With our State resources and our other Federal resources, we were continually being questioned by groups such as Ruth Crystal's about why we couldn't serve the very lowest income.

Well, the State money we get is primarily for loan programs. Tax-exempt financing doesn't bring housing costs down far enough to meet very low-income households' needs. That is where HOME fits into our strategy.

COSCD A believes that the block grant approach for housing is the most effective delivery mechanism, and we concur in that wholeheartedly. We believe that we have used HOME effectively to meet low-income housing needs. For instance, in rural areas where we deal with homeownership needs, we can serve households under \$15,000 with HOME.

HOME has also been a very effective tool for bringing States into the housing arena that haven't "stepped in the water" for the first time before. For example, HOME has had that result in Nebraska, Montana, Oregon, and other States that are newly into affordable housing programs.

HOME has had very good results nationally; 90 percent of the units are serving households at 50 percent of the median income. We know it has had a slow start. It's had a slow start not only because of the complex statute, and difficult regulations, but also because of the major paradigm shift that is going on here, that is that States have a major responsibility in the area of housing and meeting affordable housing needs.

Not every State has stepped up to acknowledge that meeting low-income housing needs is a State mandate. This program has been an incredible incentive to do that. It is a major resource, particularly since it can be used and leveraged with other local and State resources.

We are very happy with some of the statutory amendments that are being proposed that will help make this program more workable at the State and local level. We commend you for them and for the nine changes, including the uniform match requirements at 25 percent; simplification of the resale provisions which are key to

our using it as a homeownership tool; removal of the first-time home buyer requirement; easing some of the administrative burdens in the program; and simplifying the calculation of programwide income, the targeting requirements for rental housing and the use of CDBG monies for HOME administrative costs.

We have had some concerns, however. We are concerned about the \$25 million in capacity building provision authorized in 1993. We don't want to see it as a permanent part of the program. This is another debate I have with Ruth Crystal and our own State legislature. Ruth would like to see a percent off the top of our housing loan programs, which are our capital resources, used for operating costs for nonprofits. We hate to see any capital resource used for operating costs. The costs ought to be separately funded in programs designed to do that, not for programs that are designed to see actual physical change.

We also think the program needs some simplifications to be used in rural areas, particularly around CHDO definitions.

Let me also add some comments about CHAS. There are some amendments proposed related to the CHAS in House bill 3838. We are concerned about them because we don't clearly understand them and we would like to see some further clarification. We are very nervous about this. COSCDA is very committed to a statewide approach in terms of housing and community development strategy. We support this concept. We are very concerned, however, about how it gets implemented.

There are distinctions between States and local governments. States operate very differently. We deal with issues at a different level and a different scale. If a CHAS and consolidated plan requirement becomes one where we are dealing with strategy and policy direction, we are in favor of it. If it is one where it is a data-collecting exercise for other levels of government that want to use it beyond that purpose, we're not.

Thank you very much for the opportunity to be here today. You have my detailed testimony and our detailed comments from COSCDA. Thank you again.

[The prepared statement of Patricia Payne can be found in the appendix.]

Chairman GONZALEZ. Thank you very much. We're very grateful for your excellent written testimony and your presentation this morning.

Well, Mr. Flores, thank you again for helping us today. You appeared here last year and we are very grateful. You are recognized.

**STATEMENT OF HENRY FLORES, EXECUTIVE DIRECTOR, TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS, AUSTIN, TX, ON BEHALF OF THE NATIONAL COUNCIL OF STATE HOUSING AGENCIES, WASHINGTON, DC**

Mr. FLORES. Thank you, Mr. Chairman. They say that being last is—I am not sure what they say about being last. [Laughter.]

My name is Henry Flores, more truthfully said, Enrique Flores. I am the executive director of the Texas Department of Housing and Community Affairs, the HOME-administering agency for the State of Texas.



I am testifying this morning on behalf of my State and the National Council of State Housing Agencies. NCSHA's members administer the HOME Program in 35 States. They are responsible for over 65 percent of all State HOME funds. That is over \$1 billion to date. In additional States, Housing Finance Agencies contribute to HOME administration through project evaluation and underwriting.

I want to commend you, Mr. Chairman, on introducing legislation to reauthorize the HOME Program at \$2.2 billion in fiscal year 1995 and make other valuable changes. Much of my testimony merely echoes comments made earlier, so I'll try to gloss over most of the major points.

I recognize that you read all the written testimony so I think that you will be able to gather from that probably the key principle that I want to advocate today. That is the HOME Program is successful.

Earlier today Representatives Roukema and Vento both talked about the pipeline issue and the funds in the pipeline being used as a premise by HUD to reduce the allocation for HOME. I had the dubious pleasure 20 years ago of implementing the CDBG Program in Corpus Christi, which has a large entitlement community, and I am sure that no one needs to be reminded that 20 years ago the major criticism of CDBG was expenditure rate, that it was a failed urban initiative because we couldn't get the money out the door.

Well, 20 years later it is considered a model program and that's been voiced by many people today and previous to this meeting. I would suggest to you that if HOME is allowed to evolve and the program is fostered by States that it too will be a model program very shortly.

NCSHA supports all the HOME provisions in H.R. 3838 which were part of the consensus reached last year by NCSHA, other organizations represented here, and by HUD.

There is one HOME provision that Ms. Payne has referred to earlier that we would also voice concern about and that is the authorization of \$25 million in HOME funds for the National Community Development Initiative.

Certainly, we feel that the building of nonprofit capacity is the central theme to the creating of an infrastructure to ensure long-term creation of affordable housing but we are concerned about the use of HOME monies for that purpose. I would ask you to seriously consider funding NCDI separately.

We would also encourage the subcommittee to consider a handful of additional HOME amendments and those have been included in the written testimony. If you have any questions about those, I would be happy to answer those questions.

We are urging the Appropriations Committee to fund HOME in fiscal year 1995 at least at the fiscal year 1994 level of \$1.275 billion. We ask the Chair and the members of this subcommittee to convey the importance of maintaining or increasing the level of HOME funding to the members of the HUD Appropriations Subcommittee.

Again I would suggest to you that HOME is a success. Much has been made about the lack of ability of States and other entitlement communities participating in jurisdictions to draw down the funds,

but I believe if the issue is carefully analyzed what you will find is it is well on its way to becoming the fastest spending program in HUD's history. Even by HUD's definition, flawed as it may be, as of February 28 over 61 percent of fiscal year 1992 HOME funds have been committed and nearly 30 percent were disbursed. These figures have grown exponentially over the last few months and will continue to do so over the next year.

In the State of Texas we are now at 95 percent expenditure-commitment rate and that is with a grant of \$34 million. We will within the next 2 weeks be at 100 percent and probably be the second State to reach that level, the State of Delaware being first, with a \$2.7 million allocation.

We would like to commend Assistant Secretary Cuomo and Deputy Assistant Secretary Ken Williams, a fellow Texan, for working with us on getting a modification of the definition of commitment. As you alluded to earlier, OMB has signed off on that. We think that the new definition is more appropriate and it will more truly reflect the funds that are being committed by the program.

I guess, in conclusion, I would focus very briefly on the State of Texas. As I mentioned earlier, we had about \$34 million to expend and as recently as 6 months ago we were probably at about \$220,000 committed. The program has, on a weekly basis, committed between \$5-\$7 million as the program kicks in as it should. I would suggest to you that other States will have the same kind of success, again if the program is allowed to evolve as it naturally should.

In Texas we have funded nearly 1,800 home units and we think that we are using three basic tests to ensure that the program is in fact meeting the congressional mandate.

The first test is, does it help poor people? That clearly is the intent of the program.

Second, does it change the future of the State?

Last, is it cost efficient?

What I would submit to you is that if a program meets those three tests regardless of the rules and regs then it is a good program and we think the way the program is being designed in Texas and in places like New Jersey and Virginia and other States, examples of programs that are included in the written testimony, that the program is in fact an excellent program and we would urge you to continue funding it at the appropriate level.

As Ms. Payne points out, more and more States are now using this leverage. In the State of Texas, for example, we are using the HOME funds to begin to market a 5-percent mortgage product to very low-income people. The 5-percent funds were created through a bond transaction but the HOME monies are being used to pay the closing costs and the downpayment assistance so that the house is truly affordable to low-income families.

We think more and more States will become innovative in its use. This first year, obviously, the most pressing demand on the part of States was to get the money allocated and to get the money committed but we think again as the program is allowed to evolve that it will be one of the more successful endeavors ever created by Congress.

Thank you very much.

[The prepared statement of Henry Flores can be found in the appendix.]

Chairman GONZALEZ. Well, thank you, Mr. Flores.

In your statement, Ms. Payne, I think one of the most significant observations on page 13, is that you say "As HUD proceeds with evaluating methods for consolidating those documents, the Department should recognize that the powers and the duties of most State governments in regard to community planning and development vary among States and are very different from the counties and municipalities."

I think that is a very significant observation and in fact I believe that Mr. Flores would echo the fact, because you stated that in your State you have your State agency, housing and housing finance. Now, that is unlike Texas.

Mr. FLORES. That's correct.

Chairman GONZALEZ. You have a separate housing finance agency.

Mr. FLORES. About a year ago they were consolidated and now the Department of Housing and Community Affairs is also the State Housing Finance Agency.

Chairman GONZALEZ. Well, I am glad to hear that. Texas was a latecomer.

Mr. FLORES. That's correct.

Chairman GONZALEZ. As far as the State housing agency approach, I don't know what the history was in your State, Ms. Payne.

Ms. PAYNE. In Maryland?

Chairman GONZALEZ. Yes.

Ms. PAYNE. In 1971 the legislature passed authorizing legislation consolidating it all at the very beginning.

Chairman GONZALEZ. As you pointed out, there are a number of States that don't even have State housing agencies.

Ms. PAYNE. Yes.

Chairman GONZALEZ. Do they have finance agencies?

Mr. MFUME. Most have finance agencies now. They have come at different rates of speed, that's for sure.

Chairman GONZALEZ. Well, yes, but I think it is very important to sort of parallel that fact with the other. When the crisis came with the Federal Government's withdrawal from its commitment to housing, forget about community development, but housing as such, as a national priority—

Ms. PAYNE. Yes.

Chairman GONZALEZ. The withdrawal coincided with the advent of the 1981 Reagan administration and OMB Director Stockman, who came before us and told us at the very outset—in fact, I remember the date, March 19, 1981—that the administration believed that there was an excess allocation of credit on a national basis to housing. Now, I didn't need any more after that.

So States like New York, for instance, with the combination of housing and housing finance the State has done a heroic job, and it suffered the heaviest blow of all as a result of the withdrawal. The State of New York stepped in when the city of New York was suffering. I don't know of any other State, maybe New Jersey, that did so in such proportion, but it allocated enormous amounts to



housing. It had a very innovative State Housing and Housing Finance Agency.

The subcommittee visited a number of States when I became chairman in 1981, and in between 1981 and 1993 we continued to do it. I think it was very significant because of the ability of the State of New York to be flexible as well as the city of New York, that I say and repeat, also has a municipal housing and Housing Finance Agency. The subcommittee went into the devastated area in the south Bronx and we witnessed beautiful developments. The idea of the Nehemiah project had been created and we went to New York at the very inception. The churches had raised \$2 million seed money. Then the city of New York donated the land, which was bombed out and in the south Bronx, where there was a priest by the name of Father Giagante. He did the same thing except on a different basis, not the Nehemiah basis.

What he did, through the help of New York and the State Housing Finance Agency, was get the seed money plus some church collaboration, the various churches, as in Brooklyn with the Nehemiah, to participate and we had the hearings when they were in the process of forming.

When we first visited the south Bronx, there were square blocks. If somebody had come and dropped the bomb they couldn't have done worse. After Father Giagante and the other community leaders and organizers got together they enlisted the help as in the Nehemiah project of retired carpenters, builders, constructions folks. Then utilizing the unemployed youth in that area, they took one half of that burned out section which we had the happy event of seeing 2 years later and constructed brand new affordable housing for families with a family income of somewhere around \$20,000 or less than \$20,000 a year. In New York that salary is pretty low. It was built with the help of the unemployed youth in those areas.

We could walk that whole area, I forget how many blocks and see the beautiful, brand new housing with everything from a one-bedroom to four-bedroom, but we could walk across and see the still-devastated area.

No matter how much the group wanted to do and no matter how much the State and city of New York diverted its limited funds, which it did, as I said, out of proportion to any other State, it still cannot and would not and won't ever be able to construct enough affordable housing. What is necessary is to have a Federal Government national commitment.

Ms. PAYNE. Absolutely.

Chairman GONZALEZ. You know that.

Ms. PAYNE. Yes.

Chairman GONZALEZ. It has been a hard lesson that I guess the American people have had to learn over and over again at great cost.

Ms. PAYNE. Yes, and homelessness and other evidence.

Chairman GONZALEZ. Well, you didn't have that before and you have it now and it wasn't because of an act of God. There had to be reasons and I think this subcommittee was the first to bring attention to that on December 15, 1982.

Ms. PAYNE. You could see it happening but you couldn't stop it.

Chairman GONZALEZ. Well, there was a lot and there still is a lot that we are doing. The problem is that now the problem has become institutionalized. The administration is asking that the homeless programs be consolidated over in HUD, which I look at with a jaundiced eye because the National Council, working through the local, most ministerial, councils have done a darn good job.

At the same time, HUD doesn't have the manpower, which the inspector general has told us for years, to carry out the programs. The I.G. has pointed out that this is going to lead to scandal and corruption, which is exactly what has happened. At the same time you have the administration copying the previous administrations in eliminating the government by the so-called reinventing government by mandating that no less than 252,000 Federal employees be eliminated. When they apportion that share to HUD, the inspector general says, well, HUD will have more scandals, especially in the FHA and multifamily disposition divisions. HUD doesn't have the staff, and never has had the staff it ought to have. HUD doesn't have the expertise in that staff that it ought to have. With that kind of thing is what I call this continuation of this robbing Peter to pay Paul and ending up in robbing Peter and Paul.

Now, I want to compliment you, Mr. Dobson, for what you have done in Detroit.

Mr. DOBSON. Thank you, sir.

Chairman GONZALEZ. We listed Detroit as a city we were going to visit after our February 10 hearing in L.A. in 1992. We decided to take the subcommittee out which I did it in the name of the subcommittee and full committee, because the full committee had jurisdiction over the RTC and FDIC which involve affordable housing programs.

We started our hearing in Bridgeport January 7, 1992, and that was a pathetic scene. The year before that, we had gone on an emergency basis to Rhode Island for a hearing. We went to Providence, where one of the most historic States was going through the same thing. I still remember in my childhood during the Depression, the Governor had closed down the banks and credit unions.

When we had the hearing, there were over 1,000 people there. We had the litany of these poor people who were depending on the income from their retirement funds that were frozen.

Well, we could have had the Federal Reserve help. They have the power under section 14(b) of the Federal Reserve Act, but they weren't about to help. FDIC could have, but they weren't about to either.

We had them there as witnesses. We had to come back up here and provide in the act we passed that June, in fact less than 30 days after that hearing, a line of credit through a loan guarantee. It provided the State of Rhode Island could pledge its revenues from the sales tax. And when we were successful in getting that through, a loan guarantee, Rhode Island, as of about 1½ years ago, was able to get a line of credit. Finally, last year, they opened the banks and the credit unions.

Now, to me it was haunting, it was demoralizing, because those of us who survived the Depression and the war made an oath before the Almighty that we'd do everything that we could to prevent our children and grandchildren from experiencing what we had ex-

perienced. Here I am witnessing a repeat of that experience. It's just a matter of time.

Now, you've got homelessness. And I don't think there's a city, including Baltimore, that has reported to us that the rolls of the homeless were increasing and not decreasing.

We still get the administration offering a baked-over, previous administration "welfare" reform package. The problem isn't welfare; the problem is poverty and unemployment which is what we said in 1982.

And nothing is being done in Congress and that's disappointing. We tried. The reason we went on that nationwide tour was because I introduced the Emergency Housing Community Development Economic Stimulus.

Now that bill, we got it out of the committee on a bipartisan basis, believe it or not, even though there have always been vast differences on our budgeting ideas and philosophy. But we passed it out of committee. We estimated that there would be no less than 650,000 people, Americans, put back to work.

The mechanism we were going to use did not call for a bureaucracy; instead it utilized cities' community development structures. All they need is money.

Ms. PAYNE. That's correct.

Chairman GONZALEZ. We had testimony from some mayors and cities that they could get going in less than 30 days. I said, we don't have to have a new bureaucracy, but we need no less than \$30 billion.

When you say that you compliment me because of the level of authorizations we have here, those are not my levels. My levels would be over twice that, because that's what I estimate it takes to respond to the needs for shelter that are burgeoning out from the midst of our society, no matter where in the world. You've got to have shelter. And we've turned our back on a national basis for that commitment.

That is the truth, the bald truth. It makes some uncomfortable, I can't help it. But as I say in Spanish, "La verdad no peca, pero incomoda." Not literally but roughly translated, it says, "The truth doesn't commit a sin, but it sure makes a lot of people uncomfortable."

And the fact is that this is our challenge now. For instance, the State of Texas formed the finance agency in order that it could issue bonds. Well, who would take advantage of a bond issue?

Mr. FLORES. The moderate income generally speaking.

Chairman GONZALEZ. Yes. But where were they?

Mr. FLORES. The bigger urban areas.

Chairman GONZALEZ. That's right. And that's what I was going to ask you. I think in your statement, Mr. Flores, the most significant thing I saw there was on page 4, "So far the States have provided rental housing to about the same proportion of families with incomes less than 30 percent of median income as have the average of States and localities combined."

Mr. FLORES. That's correct.

Chairman GONZALEZ. Well, now, in Texas, you know, we're talking about rental housing because this is what we're referring to. Where is most of that action?



Mr. FLORES. Most of the rental housing that we are referring to there is actually along the border. We have sponsored our own initiative—

Chairman GONZALEZ. It's not in the dense urban areas?

Mr. FLORES. Not the rural housing component.

Chairman GONZALEZ. That's right.

Mr. FLORES. In order to target the very, very low income, we have gone down to the border. We have tried to be much more focused on trying to serve the people who need our help the most.

Chairman GONZALEZ. Well, you define that as less than 30 percent of median income. That's pretty low. And especially in Texas.

Mr. FLORES. That translates into \$7,600 a year in the area we're serving.

Chairman GONZALEZ. That's right. And I would say that in the average of those counties in that area, that would be about your total family income.

Mr. FLORES. Yes, sir. Yes, sir.

Chairman GONZALEZ. In my district, for instance, up until this recent redistricting, and I still have a good chunk, I had the second lowest income per family in the State of Texas. Of course, that is an urban area, and there are historical reasons.

However, in the case of your State, Ms. Payne, how would that match? How does that compare?

Do you have substantial rental housing?

Ms. PAYNE. Yes, we do. We use taxable financing, tax-exempt financing. Our State-funded loan programs which can have deferred repayment terms and interest rates as low as zero percent in combination with low-income housing tax credits to produce rental housing.

Usually, we have three, four sources of financing in every rental housing project we do. We also require, as a result of our State programs, a local contribution. So we have packages that put together State, local funds, and tax-exempt financing or taxable financing and Federal resources all together. And we are producing a high volume of rental housing.

We have one other tool in Maryland, which has allowed us to stay in the rental housing business when few other States have been able to do that. And that is a source of credit enhancement through our own State mortgage insurance company. The Maryland Housing Fund provides credit enhancement for rental housing. And we have kept up our production of rental housing despite the FHA problems and despite other issues. So we're in a big way in the rental housing business statewide.

We also have State-funded public housing programs using general obligation bonds in which we require local governments to donate a site. We provide the costs of construction of the rental housing development. The operating costs are subsidized by the rents, and they serve households at approximately 50 percent of median or less. And 18 of the 24 subdivisions in the State of Maryland have now done at least one rental housing project through the Partnership Rental Housing Program.

Chairman GONZALEZ. In your testimony, you referred to the requirement that the community housing development organizations sponsor or develop housing. Now, my question is, do you believe

that this definition will actually prevent or preclude State supported CHDOs from spending their required set-aside and thus spurring a reallocation of funding?

Ms. PAYNE. Well, we have had difficulty in the rural areas of the State in meeting the CHDO set-aside requirements because it is very difficult to put them together in that area. The metropolitan areas have pretty much gotten their acts together and figured out how to do this. But it is a disincentive in the rural areas. And slow, but it's working.

Chairman GONZALEZ. Well, I really want to compliment you, though, that you were able to have from the very beginning a unified, comprehensive approach at the State level. As I said, the States have had varying histories in the formations of their statewide agencies, whether they are housing or housing finance.

Ms. PAYNE. I think it is the trend of the future for States. They are going to have to package all these resources together because no one of them is enough to meet the need.

Chairman GONZALEZ. That's right.

Well, Mr. Flores, I think you might have mentioned that before to me, but I don't recall.

Are most of the Home Program expenditures for rental housing by the States—you're speaking for the State—in conjunction with the low-income housing tax credit?

Mr. FLORES. Almost without exception we are having to do the same thing Ms. Payne is doing; that is, layering the subsidy using home tax credits and, this last year, we actually had a multifamily bond issue that we did for the first time since 1987 to fund the creation of housing.

Chairman GONZALEZ. I see.

Mr. FLORES. And it has taken all three, the equity, the long-term financing and the tax credits to make the deal happen.

Chairman GONZALEZ. I know that the initial period of the program came after the tax bills that provided for the tax credits. Do you anticipate States using home funds to acquire projects from the HUD's multifamily property disposition inventory when and if we get the reforms we're working on now?

Mr. FLORES. No, sir, only because we think we have a better source of financing those properties.

We do in fact intend to acquire properties under something we call Target Independence, and we have previously shared that concept with you. But they are being purchased using multifamily bond issues that the State is basically credit enhancing. And we are buying in partnership with local housing authorities.

The families in public housing are allowed to transition from public housing to these new properties. Generally speaking, the properties that are in HUD's Property Disposition Program are relatively up-scale in comparison to public housing. They have wall-to-wall carpet, central air and heat, ceiling fans, and fireplaces in some cases.

So families in public housing are being allowed to move from public housing to these new, better quality properties at the same rent they are paying in public housing.

But they qualify to participate in the program only if they do five things. They have to be employed, earning at least \$8,000 a year.

They have to pay their rent on time. They have to maintain the premises, keep their kids in school through high school graduation, and stay crime- and drug-free. If they meet those criteria, the Target Independence criteria, they are allowed to go from public housing to these better quality properties.

At the same time, we have designed a lease-purchase program that we are also implementing in conjunction with the local housing authorities. And under the Lease-purchase Program, we are buying single-family homes that the families transition into as a third stage, initially in a lease situation, but eventually as a buyer. They buy it over 17 years.

So that a family in public housing can transition all the way from public housing all the way into homeownership if they do the right thing.

Chairman GONZALEZ. Very good.

Well, you have an excellent track record all the way from Corpus Christi.

Mr. FLORES. Thank you.

Chairman GONZALEZ. I didn't finish saying, Mr. Dobson, that after we went to Connecticut, we went to several States after that, one of which was South Carolina. We were right on the border of South Carolina, where they had serious problems.

Mr. DOBSON. Serious problems.

Chairman GONZALEZ. Then we went to Baltimore with Mr. Mfume. In Baltimore, there were very serious and disturbing problems. Then we went to Cleveland and held a hearing.

Then, on February 10, we went to L.A., specifically south central. The only place we could have a hearing was an old building there which was later the scene of all of the risk.

On February 10 we had an all-day hearing and it was very, very disturbing. Our next city was going to be Detroit, but we interrupted our schedule and I returned to DC to make an interim report to the leadership, urging immediate action on our bill. I felt that the situation was explosive. Of course, less than 5 weeks later the riots occurred. Nonetheless, some of the witnesses we had before the committee were very impressive but we still felt we should visit Detroit. The city had suffered a tremendous loss of population in the last two censuses, and had been victimized by some of the original Federal programs. We felt it would be educational to visit, but we had no Member from Michigan on the committee.

Mr. DOBSON. On the committee.

Chairman GONZALEZ. So we didn't get to visit and we just stopped in L.A. Of course, the leadership did not respond to my request for immediate action on the bill, so I felt that there was no need to tread water anymore. That's where we have been to date.

I will have some specific questions in writing for the other panelists and also some for you, Mr. Dobson, but I think they would be better addressed after you get the transcript. At that time, you can respond to my questions.

I will be asking for some more specific information that will help us evaluate not our legislative language, but influencing HUD in its rule and definition. For instance, you all expressed some concern on match and HUD's ambivalence in some areas. We want to



go into that, but that's beyond our scope. We don't legislate in a way that's going to micromanage any administrative agency.

I want to thank you for your patience.

Mr. Bereuter, I thank you for yours.

Mr. BEREUTER. Thank you very much, Mr. Chairman.

I am sorry I had to be pulled away for a conflict for a period of time.

Ms. Crystal, I thought your testimony was excellent. Mr. Dobson, I heard part of your fine statement. And I am sorry I missed the, I'm sure, equally fine testimony from you, Ms. Payne and you, Mr. Flores.

Have you noticed what's happened to the CDBG Program? I think the CDBG Program is one of the outstanding programs that we have had because it has been a Block Grant Program. It demanded fiscal accountability. But it left to the discretion of local elected officials how to best spend the funds that were available. And that's why I think it was outstanding.

But what's happened to the CDBG Program is that gradually by congressional action and by administrative action it is being moved toward a categorical grant program. And the discretion that you are given and the targeting that is required is increasing each year, or at least every second year.

And so what we are doing is damaging, in my judgment, a good program. We are taking the decisions away from local elected officials who have used it extremely well. Low administrative costs.

One of my concerns is that we are focusing an increased amount of those funds on economic development activity. Now, I am a former division director in my State's Department of Economic Development and I, like everyone else, think economic development is wonderful. But I do believe some of it is being used for industrial pirating and it is being used to build those hotels in downtown X instead of other places.

And I regret that trend. I think it is a step in the wrong direction. And we are going to have future accountability problems. And we are going to be sometime asked soon to conduct oversight activities of the abuse of the program and the amount of money that's being wasted.

I don't have any argument with some requirement that it goes primarily to low-income and low-middle-income people. But I would guess that a significant part of the economic development funds have not gone in that direction. And that is what the GAO report seems to say.

So I regret and will oppose any further categorization of what was a "good" program because it was a Block Grant Program. But this may be one voice crying in the wilderness.

Ms. Crystal, you in your testimony, I believe, said you thought the section 108 money should be aligned with CDBG. Are you, in effect—if that's correct, are you in effect recommending the abolition of the 108 Program?

Ms. CRYSTAL. No, I am not recommending the abolition of it. What I am saying is that if in CDBG you can build certain community facilities like day care centers and job training centers, that it seems arbitrary to say that section 108 loans, which are guaran-

teed by future CDBG dollars, can't be used to build that same thing.

I am not recommending—I am recommending that they be looked at carefully because if we expand them as rapidly as we are expanding them in the next couple of years, we are really on the verge of putting at risk our future CDBG dollars. I am not recommending abolishing the program.

Mr. BEREUTER. All right. Thank you.

When you talk about the technical assistance funds in your testimony, which is administered by HUD's community planning and development section, are you suggesting that there has not been adequate information about the availability of it, that not enough information has been shared with the public?

Ms. CRYSTAL. The technical assistance money for CDBG, there has never been a clear understanding of how that money is being used and how it has improved the administration of CDBG.

Mr. BEREUTER. How do you think it's been used?

Ms. CRYSTAL. I know how some—

Mr. BEREUTER. Be brutally candid if you wish.

Ms. CRYSTAL. I think it has been pot shot here, there, and the other place. And I am not sure that sometimes it overlaps how money is spent from other sources from HUD. And I am not sure that the assistance that's bought for different entitlement jurisdictions actually improves the program as a whole.

Mr. BEREUTER. Do you think it has been used as a slush fund? Do you think it has made a lot of beltway bandits rich or at least made them some money?

Ms. CRYSTAL. I am not sure if I would go quite that far.

Mr. BEREUTER. I would.

Ms. CRYSTAL. I would go half way there. And I think you were out of the room when Pat and I were talking about we often sit next to each other in our State legislature and I am usually very much in favor of capacity building. When I look at it at a Federal level, I am afraid that some of it has not improved the program as a whole, but gone to a specific consultant whose done something marginal with one specific program or community.

Mr. BEREUTER. Regardless of who is in charge of HUD, Democrats or Republicans, I think it has made some people's friends a lot of money without any real impact upon programs. By and large, at least not enough to merit its use this way. There have been some good things too. I would admit that.

Ms. PAYNE, you suggested you are not in favor of the consolidation plan proposed by HUD as I understand it. I didn't hear you say that, but I'm told your testimony—

Ms. PAYNE. We are in favor of the concept. We just want to—

Mr. BEREUTER. Would you elaborate? That was my question.

Ms. PAYNE. We are very much in favor—we have no problems with the concept of a consolidated strategy at the State level. We are concerned that the CHAS as a vehicle is not going to be a mechanism for getting us there. There are very different roles at the State level as opposed to the local level, and we want whatever consolidating planning requirement comes out to be reflective of what the role of the State is.

So our concern is going to be what's required. Is the consolidated plan going to be a data gathering document on a statewide level which could, if the CHAS is 1 foot high, make the consolidated plan several feet high? Or is it going to be a tool that Governors use at an executive level to allocate resources based on a strategy that is stated and shared with local governments and citizens?

That is a very different approach, and our concern is that the implementation may invalidate the value of an idea at a conceptual level. So we are actually saying it's a warning, an expression of concern.

Mr. BEREUTER. All right.

I wanted to highlight one point from your testimony, Ms. Payne. And you say, "A large majority of State CDBG grants go to nonmetropolitan communities and these communities often find themselves working with CDBG and RDA funds. Since RDA funds have no Davis-Bacon requirements, while CDBG funds do, this inconsistency is confusing these small localities, which I stipulate is the case, while more importantly it reduces the value of all financial assistance because Davis-Bacon wages which can increase project costs by 20 percent have to be applied to the project."

And you recommend the wage requirements follow that of the lead funding agency. And I heartily endorse that and wanted to highlight it from your testimony.

Ms. PAYNE. Thank you.

Mr. BEREUTER. There are many things to be pursued and the hour is late and our witnesses haven't had lunch and I don't think we're buying, are we? [Laughter.]

In any case, Mr. Chairman, I wanted to compliment you on the hearings today. My only regret is that we had so few members here because of the floor activities, I imagine.

But this kind of oversight hearing, I think, is very important to us and I want to tell you that I, personally, appreciate the effort you have devoted to this.

Thank you very much.

Chairman GONZALEZ. Well, thank you very much, Mr. Bereuter. I really sincerely and deeply appreciate those words, and also your presence.

You have been in very good and constant attendance no matter what the subject matter. Of course, I'll say this to those that may not be aware, he's really here on rural housing issues. I mean, he is not going to miss any kind of hearing.

Yes, in fact, I am asking consent for all members to have the opportunity to submit questions in writing to the panelists. When you get the transcript of these proceedings and if the members wish to do so—some have indicated they will—they will send in written questions. I hope they do so by the time you receive the transcript.

Some members who couldn't make it, as Mr. Bereuter indicated, are engaged in this budget or so-called balanced budget amendment discussions. For whatever reason, each member must set his or her priorities.

In the beginning, this subcommittee, of which I first became a member 32½ years ago, consisted of seven members and the chairman was Mr. Rains of Alabama. He didn't want to increase the membership any more then. The full committee chairman had



reached a point where he was inoperative. Brent Spence was a very distinguished Kentuckian who, incidentally, was really the main power behind all of the 1933, 1934 acts from S&L to FDIC to FHA. He never got credit for those acts because fellows like Steagall, who was chairman of the committee, and Senator Carter Glass, got their names on the Glass-Steagall Act, a famous act at that time. The challenge, however, was more acute.

This country has worse problems and a real crisis, but they are not being reported. There is no visible perception any more than there was in December 1982 of what we now call homelessness. In fact, it took 6 years before we could get the President to admit there was a problem which is the same thing now.

It is an earthquake, but it is a slow-moving kind of earthquake. It is a combination of moral earthquake plus other, and it is very distressing to see priorities developed on a perverse basis. We have been through many experiments, such as Gramm-Rudman-Hollins, which really perverted everything. It was all done in the name of budgetary balance, as I say.

I wanted to point out, while Mr. Bereuter is here, a little bit of the history behind these block grants, like CDBG which came later.

The original block grants happened right following the first big master block grant which they called revenue sharing. I was one of the very few that did not support it because of the simple reason that the year was 1972, and we had budget deficiencies.

So my point was, well, what revenue are we sharing? We are sharing deficiencies. It was all done in the name of getting away from the Federal level mandated.

Having had the tremendous privilege of serving on the local legislative and on the State legislative levels, I was a great and inspired Member who marveled at the congressional level at that time. When we entered 1974, we had the first block grant approach for the housing programs.

The name of the subcommittee was not the Subcommittee on Housing and Community Development. It was a Subcommittee on Housing and Mass Transit. We had the Reform Act that year, 1974, the Legislative Reform Act, which I opposed. I was very troubled by that and the Budget Reform Act which I was one of about six or seven that didn't vote for it. I was the only one, however, who gave reasons and special order in the record for voting against the measure.

I wish I had been wrong. There was no such thing, Mr. Bereuter, as a continuing appropriations resolution. The first one that I remember was a supplemental in 1965 or 1966, when they needed \$750 million for Vietnam. Those old nesters that had control of appropriations weren't about to have that kind of chaotic situation, much less what we have with the acceptance of a dire emergency supplemental.

Even that supplemental in 1965 was the only one that was on that year's budgetary basis. President Nixon didn't present his budget message until May, on the basis that he wanted to present his own budget and not the warmed-over Lyndon Johnson leftover budget in 1969. At first I said, you know, this man is a very smart guy. He's been running for the Presidency all these years and he knows what he wants so that's why he's asking to delay the Janu-

ary budget message. To my dismay, on May 12 more or less, he presented the budget that Lyndon Johnson had left Congress. The Congress was not injured to that. The Congresses since Franklin Roosevelt, unlike the ones before, reacted to the President, the administration's program.

It used to be that Congresses would shape the policies and then the President would faithfully execute them. Well, that was changed with the Depression and the war. And the Congress was just not used to it. Sure enough, if somebody ever goes back and studies that and draws a graph, you'll see that that was the initial point of this budgetary chaos. It was the first year that you had continuing resolutions.

In later years, we had continuing resolutions from session to session, and then, lo and behold, from Congress to Congress. Now we have them on a supplemental dire emergency.

You cannot handle on a corporate basis, any corporation that has a budget of even \$2 billion, much less one like the Federal Government today, or General Motors, or the like, on a spasmodic basis. I mean, how can the poor administrators project from month to month what they are going to do and handle deficiency.

Well, by 1965, after the death of President Kennedy, who had been unsuccessful two times in having the creation of a Department of Housing and Urban Development, came Lyndon Johnson, who pledged to carry out Mr. Kennedy's unfulfilled program, and he did. In 1965, I had a hand in it. And we can say all we want to about corruption and the handling of the programs, but the facts are that you didn't have the corruption in the administrative processes.

You did have corruption in the FHA, when it had the FHA Commission. You had the gambling State of Nevada. Today, morally, we've had a decline. Everybody is a gambler or wants to be, including governments, State governments, city governments. Gambling was absolutely a no-no, back in the 1950's, when the State of Nevada was the pioneer in gambling, governmental gambling.

So some of the enterprising financiers—who incidentally are sharper than some of our Wall Street financiers—of the underworld, were able to leverage funds, some of those left over from what they creamed off and sent to their secret bank accounts in Switzerland. They found a way to leverage FHA, and they did take advantage of the program.

You talk about being a "Beltway bandit"? Well, they're only bandits when you have the corruption that you've read about. Everybody, including the bankers, are now gambling. They are no different. I don't know what we can do about it.

The moral tone of this country, certainly in that respect, has deteriorated. You now have officially governmental-sponsored gambling, and all history shows that no good comes from that. And what's it all done in the name of? Saving taxpayers' money, so you won't have to tax the people, so they won't have to pay to support their public schools. They say let's gamble.

Of course, New Jersey found out that no matter how beautiful imitations of Las Vegas are, it wasn't enough to cover the costs of education where they targeted it. Now, in Texas, when the lottery began the funds were unallocated. There are a lot of Texans who

think that proceeds from gambling, or the lottery, go to education. It doesn't.

Now, Texas, my little home State that I love and all, has 384 persons, 4 of which are women, on death row. There is not a combination of countries in the world, including Iraq that has that problem. But what did they do? The legislature can get together on getting equitable funding for education, but instead passed \$1 billion plus to build more penitentiaries last year. That perversity in priorities is reflected on the national level.

The President made several promises to get the votes for NAFTA. This, however, is the only committee that had not one but three hearings on NAFTA, yet was totally censored. There wasn't any coverage of those hearings. The press just went wild, like they are today, on NAFTA, you know. It's going to be Manna from heaven. Texas was particularly imbued with that spirit. So they go into this building of penitentiaries.

On the national level the President promised one Texas Congresswoman to build six bombers to get her vote. Another one was promised \$10 million to build a structure there in Austin. With that amount of money, we could have funded three times over my Emergency Stimulus Package and put people to work, and the country will not be restored until that is done.

I have been a close student of every recession, even before I ever dreamed of being in the Congress. I had the good fortune of knowing personally and getting to be a very good friend of the most outstanding economist and housing expert ever, Leon Keyserling, who was the author of the 1947 Housing Act, and had a hand in the 1937 act. He was a Roosevelt advisor. He was a brilliant man and he graphed out what would happen in the future.

He said, every recession will plateau deeper, go deeper and take longer to recover from. That is exactly what happened. They claimed to have recovery, but it's a jobless recovery. You have more unemployment now than you had in 1990.

Yet, it began in 1990, and it was the reason we had hearings and brought Mr. Greenspan before us, after the Secretary of State stated that the reason for the preparation for the Gulf war in October 1990 was jobs. That was the reason he gave.

We brought Mr. Greenspan up here and he said, well, I wouldn't say we're in a recession as of yet. He went on to say that 70 percent of the contributing cause for this is the cost of this buildup in preparation for what turned out to be the war. There wasn't one newspaper reporter that covered that hearing. It's in the record. It was an open hearing, like this one is, and his comments are on the record.

So the reason I'm taking your time is because this administration inherited some agreements, and then it further rubber-stamped previous agreements. It entered into the Congress again by going back to the 1990 so-called summit budget. That's how ridiculous we've gotten.

We've gotten to where if the Congress and President get together it's a summit, as if it were foreign diplomats getting together. Anyway, they're tired. All we have to do is read our history, but we've lost our historical memory.



I think back to the last President who had what I would say was long range vision, President Roosevelt, and realize that everything since his administration has been short range, ad hoc, crisis to crisis.

So with that rather pessimistic outlook, let me tell you the good news, which is that the country has survived war, civil war, pestilence, and it'll survive this too. It means, however, that we have to work at it. It isn't self-perpetuating. So with that, thank you for your patience. Does anyone have any comments? Mr. Dobson.

Mr. DOBSON. Mr. Chairman, I would like to, on behalf of the National Council for Urban Economic Development, compliment you on the leadership and the foresight that you have seen to call this particular hearing.

And on a very personal note, I would like to extend to you a debt of gratitude and my own compliments for the long years of leadership and the human compassion that you have shown, and the leadership that you have shown in your position in looking out for people who very definitely need that kind of leadership coming from Congress and from the administration.

It's that kind of thing that a democracy is supposed to be made of. It's that kind of thing that we see our government as being. And I'm very proud to sit here and to hear and observe your very excellent history of the chronology of legislative and governmental events. And to see how at least one person has played a very positive role in helping people in the process.

Chairman GONZALEZ. Well, thank you very much, Mr. Dobson, it's people like yourself that have made it possible for me to serve. I've been privileged. I've had the privilege of serving in various capacities, going back to right after the war as a juvenile officer. In fact, I was recognized in that dim period of time and was named chief juvenile probation officer. That gave me my introduction to what the world was like.

It was an experience and it was a privilege. I felt the least I could do would just be to bear witness to the experience. Then I had the privilege of working for the public housing authority, in San Antonio, which had been beset with very heavy argumentation and bitter opposition. I was involved in the expansion program between 1950 and 1953, and that was a tremendous experience.

All I've been doing is actually just rendering witness and trying to be faithful to the primary reason why I feel justified in calling myself a Representative, and in being faithful to the Oath of Office. Actually, there is no power that we really have except for the voice and the vote.

So I've made ample use of both, beginning when I was elected to the city council. That's where I learned that I liked what I call legislative advocacy. I don't think I've done anything heroic. Housing, yes, because in my earliest memories there were really very sad and dismal events.

I watched people, even relatives, die of tuberculosis, and I watched my mother give me a pint of milk every morning to take to this cousin across the creek. That cousin lived in a dirt-floored shack, with a common drinking fountain for about 11 families. That shack was in my city.

Of course, that was the Depression. But those are memories that are etched and engraved forever and a day. For me to forget them and to say that "Gee, things haven't been improved," would be to be a false witness.

That's why I say, we'll always have the problems. You know, it's like during the 1950's, and the civil rights struggle. I remember when I was on the city council and that issue first came up in 1954. I was the only one voting no, and whatnot. I remember the leaders, that would come to San Antonio, saying, "Well, freedom isn't free," and there is a profound sentiment expressed in that very simple phrase.

Mr. DOBSON. That's right.

Chairman GONZALEZ. Freedom isn't free.

Mr. DOBSON. Not at all.

Chairman GONZALEZ. And it's never won permanently. Each generation has to win it on its own.

Mr. DOBSON. That's right.

Chairman GONZALEZ. And we have very serious dangers confronting this country that I can't even get a discussion from the people in charge, like the Chairman of the Federal Reserve, the executive branch. The most vital thing of all, which is the danger that our currency can be devalued, is never discussed. It's lost its value.

The dollar, in the last 15 years, has lost two-thirds of its value, as compared to the Japanese currency, the yen, and the deutschmark. Now, in the meanwhile, the Europeans have gotten together and they have advanced their European monetary system and their European currency unit which right now is worth over \$1.30.

Now, what I can't convey is the extreme danger we're in because of our tremendous debt overbuild on the government level, on the private corporate level, and on the private personal level. We're the only country that has ever had the privilege of paying its debts in its own currency. We're the only one, but we can lose that, if the dollar is replaced as the international currency unit. It has to a large extent been replaced. If you read the financial journals and the quotations in the European markets, you'll see that they're made not in dollars but in ECUs [European Currency Unit]. Now, all it would take, in my opinion, and I hope I'm wrong, is for the dollar to be replaced.

I hoped I'd be wrong when I voted against the Legislative Reform Act. I was hoping I'd be wrong when I voted against the Budgetary Reform Act, but unfortunately, the events are here. It's the same thing now.

What does it mean if the dollar is effectively replaced? It doesn't take much. There is no reason why the Group of Six or Seven, including Japan where the financial center of things is now—as of September 16, 1985, the center of financial power left the United States and has been in Tokyo. Just like in 1932, it went from London to New York.

We were the only creditor nation in World War I, and we were a debtor nation until 1914, but on September 16, 1985, we became a debtor nation again for the first time since 1914. This is a reason

that I oppose the phony panaceas and nostrums like Gramm-Rudman-Hollins. They were phony from the word go, and I resented it.

But today, what does it mean? It means that if the dollar has lost its value, it would be devalued for the first time, and this debt would have to be paid back in somebody else's currency.

What does that mean? It means the United States has lost its economic and financial leadership and freedom. So I worry about those things. And how do they translate to you? In a very direct way. What are your costs if you build? Has the cost of labor gone down?

Have the cost of materials gone down as compared to 5 years ago? I don't think so. It's the same thing in living. You just go to the grocery store with your neighbors and talk to the folks; they'll tell you. People are very straight. The people are way ahead of our leadership, and see, they know, they sense.

Every time I hear somebody say, "You know, the people wouldn't understand," I turn around and say, "Wait a while. What were you and I before we were in public office? Weren't we part of the people? Were we dumber then? I don't think so." But you have that transformation. Power does strange things to the mind.

And as I see it, you talk to the people in the grocery store and they'll tell you what's going on. "Hey, Henry, where are we going to go?" They're not paying less for groceries than they were 10 years ago. They're paying more. They're not paying less for light, gas, and water. The utilities are going up, they're not going down. Rents aren't going down. They are still going up. That's the real cost of living.

Why? The share of stock that we have in our government, which is that dollar bill that you have in your pocket, has lost value and it does not purchase what it used to, and that translates up and down the line from groceries to steel, to copper and everything else. So I don't know, but I still have a lot of faith.

I think we're going to have to pay a social cost that is tragic. You can't do to people what we've done to some Americans without having social disequilibrium. It isn't that I feel I've done anything. I just want to be true to what I've been given the privilege to witness live and kicking. I try not to deceive myself. And in a democracy why should any man be praised for doing that which his Oath of Office says he ought to do anyway.

I'm very grateful because I know that in politics you are in the most active of human endeavors, and you're not going to have a consensus. Mr. Dobson, whenever I get a bouquet, I take it out and frame it.

Mr. DOBSON. You deserve it, Congressman.

Chairman GONZALEZ. Thank you very much. You all make it possible, and it helps all of the Members. They are great Members. We all have different backgrounds and even age. When I talk about the Depression, I look around and say, "Well, wait a while, this young man is only 36 years of age. He doesn't know what I'm talking about. It doesn't ring the same bell."

When I was a juvenile officer and I'd counsel a little kid who had no father and had never known a father, and whose poor mother worked in a bar, or in a hotel, I'd wonder what to talk to him about, "family values" or "your parents?" If I used the word "fa-



ther," it didn't mean the same thing as in my world. I was privileged to have a unified family. So it's the same situation here.

You know, how can I relate to a young man who has never, never had to worry about making that paycheck stretch to the end of the month to pay for either the rent or the mortgage, or maybe a dress for the wife, or a pair of shoes for the kids?

But those of us that grew up during the Depression have no excuse for forgetting, no matter what. So thank you. The subcommittee will stand adjourned until tomorrow morning at 10 o'clock.

Incidentally, we'll have a continuation of these hearings because I've set a date to mark up H.R. 3838, and get it out of the full committee, get it on the House floor, and get it to the Senate. They are going to have problems over there for other reasons. I make sure that the President gets an extension of these acts for him to sign.

The Members are equally committed; they are just in a different way, but no less than I am. We can work with them. You help us because you give us the living testimony and information that enables us to legislate knowledgeably. That's the only purpose we have for having any kind of hearing, whether it's this oversight, or whether it's investigatory.

So many times we are confused as being prosecutorial or judicial bodies. Well, we're not. I've repeated that constantly since I became chairman of not only this subcommittee but the full committee. Anyway, thank you very much.

Mr. DOBSON. Thank you.

Chairman GONZALEZ. The committee will stand adjourned until tomorrow morning at 10 o'clock.

Ms. PAYNE. Thank you.

Ms. CRYSTAL. Thank you.

Mr. FLORES. Thank you.

[Whereupon, at 1:45 p.m., the hearing was adjourned.]

**H.R. 3838; HOUSING AND COMMUNITY  
DEVELOPMENT ACT OF 1994**  
(PUBLIC HOUSING AND SECTION 8 HOUSING ASSISTANCE  
PAYMENTS PROGRAM)

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**THURSDAY, MARCH 17, 1994**

HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON HOUSING  
AND COMMUNITY DEVELOPMENT,  
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS,  
*Washington, DC.*

The subcommittee met, pursuant to notice, at 10 a.m., in room 2128, Rayburn House Office Building, Hon. Henry B. Gonzalez [chairman of the subcommittee] presiding.

Present: Chairman Gonzalez, Representatives Waters, Klein, Barrett of Wisconsin, Velazquez, Roukema, Bereuter, and Knollenberg.

Chairman GONZALEZ. The subcommittee will please come to order.

We have a substantial list of witnesses. We have two panels this morning, and the House changed its schedule and is opening now at 10 o'clock, and we are liable to face some interruptions for votes on the House floor. So, every member has received, in strict accordance with the rules, proper notice with a full week's notice. And I have never, ever, since I have been Chair, tried to impose my judgment as to what a member should have as his priority.

But given the history of this subcommittee, where it reached the point where it is actually impossible to handle adequately, just two or three Congresses ago, where all at one time, all but four members of the full committee were on this subcommittee. It became attractive ever since the 1970's when the grant programs began to come across the horizon and then there was a lot of action by Members to get on this subcommittee. I finally had to ask the Steering and Policy Committee and the Democratic caucus to amend the rule, whereby no subcommittee could be more than, at first, 70 percent of the full committee and then finally 60 percent. But still we had all but four members of the full committee, yet when we called a meeting we were lucky if we could get a quorum for a while.

There are other reasons that will contribute to that that I won't go into. But at this point it is necessary to proceed expeditiously because this is a year in which we have very limited legislative workdays. It is an election year. There is no question that the Congress would adjourn before the first week in November. And then

given the breaks in the summer and the holidays, it leaves us relatively numbered workdays.

Yet, this is a year that every one of the Affordable Housing Programs that the Congress has in its wisdom provided over the years, must be renewed and extended or they will expire by the end of the fiscal year. So it is necessary that we proceed. We still have to work the subcommittee—on the subcommittee level, then the full committee, then out of the House, and then we have the Senate to contend with. And we just don't know what this year will bring.

So, I am sorry that we have to start this late this morning, but I intend to expedite the hearing out of respect for the witnesses that have traveled many miles to be here. As I said, every member has had notice in accordance with the rule, even more than the 1 week prescribed in the rule. So, I apologize to the distinguished members of the panels that have answered our call. Your testimony is very important.

I have set a target date for the markup on this subcommittee level, and full committee, and out of the House. And I intend to keep that target. Of course, alone I can't do it. I have to have the majority of the members of the subcommittee. This is why I like this work. One alone doesn't do anything. You have to join others and you have to match your wits and your aspirations with that of the others from other parts of the country.

This morning's hearing is the continuation of the hearings on the substantive, noncontroversial extension of these laws and programs known as H.R. 3838. And it is necessary that we obtain your testimony and we want to thank you in advance for having answered our invitation.

I am going to ask that my opening prepared statement be placed in the record at this point.

[The prepared statement of Chairman Gonzalez can be found in the appendix.]

The witnesses that the very able staff has put together, and again a limited staff, represent all the major housing organizations with any kind of an interest, direct, immediate, or remote in public housing and section 8. We have had your help before and we thank you again.

The first panel consists of Mr. Robert L. Armstrong, president of the National Association of Housing and Redevelopment Officials, headquartered here in DC; Ms. Barbara Burgo, resident of the Gilpin Court Housing Development of Richmond, Virginia; Ms. Andrea Duncan, president of the Council of Large Public Housing Authorities, and the executive director of the housing authority of Louisville, Kentucky; Mr. J. Richard Parker II, executive director, Athens, Georgia Housing Authority, on behalf of the Public Housing Authorities Directors Association, also headquartered here in DC; and Mr. John Hiscox, executive director, Macon, Georgia Housing Authority, on behalf of the Georgia Association of Housing and Redevelopment Authorities. And if you take your place at the table, we will proceed, and as the members arrive, we will proceed expeditiously.

What happens here when we have this kind of hearing, as it happened yesterday, the members of the second panel have to sit here all morning and finally at about noon time they get recognized. It



is unfair, but nevertheless, that is one of the realities of the procedures. Even though yesterday's witnesses, the first panel, were exceedingly succinct and had excellent, most helpful testimony, they did it in record time. It still was not possible after the question period to get to the second panel until afternoon.

Your testimony will be placed in the record exactly as you gave it to us in writing. So I would offer the suggestion that if it is possible for you to summarize, and, therefore reduce the time of the presentation, it will be most helpful, and would tend to provide a little bit fairer opportunity for the second panel. We will also advise you that your testimony, and the package accompanying the pertinent statutory matters ahead of us, is before every member of this subcommittee and they will be reading it.

Members who are not present have what to them are legitimate reasons for giving something else priority. Perhaps it is that budget amendment that is going on on the House floor, perhaps something else. But nevertheless, they will have access to this material. And I am sure that as a member finds himself or herself able to be here, they will. Mr. Knollenberg.

Mr. KNOLLENBERG. Thank you, Mr. Chairman. I will be very brief. I do want to thank the testifiers for coming in this morning. I particularly want to thank Robert Armstrong, an individual who has worked very hard to bring about some of the reforms and has been very innovative in the process and I wanted to salute him. I hope and suspect that much of the discussion this morning will, obviously, focus on rent reform.

As many of you know, last March I introduced H.R. 2957, the Rent Reform and Empowerment Act of 1993. Its purpose was to stimulate debate over the perverse disincentives which public housing residents face when considering gainful employment and in that regard, I think it was very successful. As we gather today at this point there are some six different proposals out there and there may be others brewing.

But now the time has come to move away from the concepts and talk about proposals in the harsh light of budgetary reality. I think it is important to note that this is not a Democrat or Republican issue. HUD has embraced it. The Republican Conference included it in their welfare reform package. Rent reform is simply common sense. And I believe that will carry the issue a long, long way.

Again, I look forward to the testimony. I am glad to see everybody here today and thank you, Mr. Chairman, for allowing me to make those comments.

Chairman GONZALEZ. Thank you, Mr. Knollenberg.

Mr. Armstrong, we will recognize you as the leadoff witness.

**STATEMENT OF ROBERT L. ARMSTRONG, PRESIDENT, NATIONAL ASSOCIATION OF HOUSING AND REDEVELOPMENT OFFICIALS, WASHINGTON, DC**

Mr. ARMSTRONG. Thank you, Mr. Chairman and members of the panel. I will make my remarks very short, Mr. Chairman, because Congressman Knollenberg has already given things that I wanted to say about rent control.

There is a ground-swell consensus growing that the time has come for rent reform in our Nation's oldest housing program, the

Public Housing Program. HUD has proposed a good beginning, which is included in your bill and has been passed by the Senate.

Representative Roukema has proposed rent reform in legislation she recently introduced and Representative Knollenberg also has a bill to achieve rent reform in public housing.

Rent reform is part and parcel of welfare reform efforts to reward work and reduce dependency on Federal programs by low-income families. It is the right thing to do and has therefore attracted bipartisan support.

Currently, the working poor, those who have jobs and earned income which is less than 80 percent of the median area income of the locality, are penalized by rent increases whenever their incomes rise. Rent reform would enable those families to remain in HUD-assisted housing while accumulating savings.

During that time, the working poor contribute to an income mix, serve as role models, and provide stability within low-income housing developments.

Each of us at this table representing the 3,400 local housing agencies, which house close to 800,000 public housing families, are all in agreement that rent reform must be a part of a housing reauthorization bill this year.

Our differences are simply ones of degree and scope of coverage. What we mean by rent reform is not counting for purposes of rent some or all earned income of people who work; freezing the rent for a time; and ceiling rents which cap the amount a resident pays, regardless of the resident's income.

The purpose is to enable the working poor to use their wages for other important necessities like shoes for their kids, doctor visits when necessary, savings to buy a car to go to work or savings for college costs.

NAHRO, I believe, proposes the broadest rent reform. We think that both public housing residents and families who live in the private market with section 8 rental assistance ought to be able to benefit through rent reform. They are both in the same income group.

NAHRO members think that not only the newly employed, but those who currently have jobs and live in HUD-assisted housing should also benefit from rent reform. We also believe that youth and young adults who are not heads of households, but who contribute to the family support through their jobs should have a substantial portion of their earned income not counted for rent purposes. Most of these young people have part-time jobs, which do not pay that much in the first place.

Those in job training and family self-sufficiency programs likewise should not be penalized by rent increases due to program-related income or stipends. We believe that rent increases should be phased in for a period up to 5 years to ease the transition for these wage-earning families. And finally, the amount of earned income excluded for rent calculation purposes should not result in a zero rent with a negative rent payment to the resident by the local housing authority. This, we feel, is counterproductive to the purposes of rent and welfare reform.

In the private rental market, the rent doesn't go up simply because one's income goes up. Rather, rents are set based on the loca-

tion, size, amenities, and market in which the unit is located. We think the same approach would work well for low-income families. We want to strengthen families in every possible way. We want to give them job skills, education, health care, child care, and other bits of "economic lift," as Secretary Cisneros calls it, which will enable them to become fully productive members of our society.

We and they want to end their dependency on Federal programs as quickly as possible. The Congress has begun that process by expanding the Earned Income Tax Credit for working poor families and it is embarking on an ambitious legislative agenda for universal health care and welfare reform. These rent reform proposals go hand in hand with those other legislative initiatives.

President Clinton, in his campaign book, "Putting People First: How We Can All Change America," said he wanted to end welfare as we know it. He said he wanted to and I quote, "eliminate foolish regulations that discourage people receiving income maintenance from saving. It is a travesty that people on welfare who want to do right by themselves and their families can't because the government won't let them." End of quote.

The current rent rules for public housing and section 8 housing are among those foolish regulations that this subcommittee needs to change. And we hope that you will. We believe that rent reform in some form will be good for the residents of public housing, be good for the staffs of public housing, and be good for America.

Thank you very much for the opportunity to be here, Mr. Chairman.

[The prepared statement of Mr. Armstrong can be found in the appendix.]

Chairman GONZALEZ. The leadoff witness that was originally listed was our fellow Congresswoman, Ms. Brown from Florida, and we proceeded, pending her arrival. Congresswoman Waters has now announced she is here so that we will not displace the members of the panel.

Ms. Brown, why don't you just take this place here, and since Mr. Armstrong has completed his statement, we will recognize you and you can use that mike to present your testimony.

#### **STATEMENT OF HON. CORRINE BROWN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA**

Ms. BROWN. Mr. Chairman, thank you for your patience and I want to apologize for this morning's confusion. There is a person I would like to introduce from Jacksonville, who coordinates our Children's Home Society and Boys and Girls Club Program in Jacksonville public housing projects.

Mrs. Gregory, would you please stand up?

Thank you.

I appreciate the opportunity to appear before the subcommittee and I would like to request that my written testimony be submitted for the record at this time.

Chairman GONZALEZ. Certainly, without any objection, it will be presented in the record at this point as you presented it to us following your oral testimony.

Ms. BROWN. Thank you. The Children's Home Society and the Boys and Girls Club Program, which are in their second year of op-



eration, are funded by the city of Jacksonville. If this combined program continues, the mayor of Jacksonville, Mayor Ed Austin, believes that it can be successful in its long-term goal to alleviate the growing crime and drug problem inherent in all our cities and has the potential to improve the quality of life for inner-city residents.

I would like to cite some statistics that show the success of this combined program. The statistics from the Jacksonville sheriff's office have shown a 31-percent drop in arrest rates while this program has been in effect. There has also been a 39-percent decrease in assaults, a 40-percent drop in sexual assaults, and a 44-percent decrease in robberies.

We would request an authorization of \$1.8 million for the combined program. It is a match program and these Federal dollars would allow many of the city agencies to continue to participate. As I stated before, this is the second year of this program and we think it is the kind of pilot program that we can duplicate throughout this country, Mr. Chairman. Thank you again for this opportunity to speak before the subcommittee.

[The prepared statement of Hon. Corrine Brown can be found in the appendix.]

Chairman GONZALEZ. Well, thank you very much Congresswoman. I understand the person you introduced is a housing official in Jacksonville? Why don't you come to this lower mike here, and give your name and title so that the reporter can get it correctly.

Ms. GREGORY. My name is Leora Gregory, chief of the Child Services Division of the city of Jacksonville. We work with housing and HUD. We have been quite successful with these three programs in our housing areas and we are looking to bring these programs to scale, and extend to other housing others that are in need of comprehensive social services.

Chairman GONZALEZ. So you are the city of Jacksonville Child Services Administrator?

Ms. GREGORY. Yes, sir, I am, chief of Children's Services.

Chairman GONZALEZ. And you work in conjunction with the local housing authority?

Ms. GREGORY. Yes, I do, we work cooperatively. We collaborate with them in these three areas and other areas, but these happen to be our premier projects.

Chairman GONZALEZ. Ms. Brown, this funding that you referred to, what is the source? You said it was matching funds, but what is the Federal source?

Ms. BROWN. It is a HUD demonstration project.

Chairman GONZALEZ. Oh, yes, OK, all right.

Ms. BROWN. And the city of Jacksonville contributes and also the Jacksonville sheriff's office.

Chairman GONZALEZ. I see. Well, I want to compliment you and Ms. Gregory for your innovative and seminal approach. That is what it is going to take. You have to have the local cooperative interests on the various levels and every community. And I think the leadership offered by a Member of Congress is indispensable. And I wanted to compliment you.

In order to avoid having to submit something in writing later, we probably can get the subcommittee staff to talk to your staff in

order to see where we are in our authorization levels so HUD can continue.

Ms. BROWN. I would greatly appreciate this, Mr. Chairman. Thank you so much, you are so gracious.

Chairman GONZALEZ. Certainly. Are there any plans to expand this program?

Ms. GREGORY. We would like to expand this program with available funds, yes, because we feel like we have been quite successful in the 2 years that we have been in operation.

Ms. BROWN. Before we started this program, these projects were drug havens and we have really been able to clean up these areas and have had a very cooperative atmosphere. We have placed cops on the beat in these neighborhoods. The public school system is also involved. We have after-school programs for the kids. We have counseling. It is really amazing what you can do when you pool your resources and work together.

Chairman GONZALEZ. That is true. I don't know if other members have questions they may wish to ask now. We will be submitting some in writing. Some of the other members have given us notice that they may have additional questions.

[The information referred to can be found in the appendix.]

I know that the only thing I request, conceivably want as we go to marking up the Authorization bill, can be handled on a staff level. We will also keep you abreast of what the authorization levels are and then more importantly what the Appropriation Committee finally does, so that whatever plans you base locally on a matching basis, you can be assured that there will be some funds from this Federal level.

Ms. BROWN. Thank you, Mr. Chairman. Thank you.

Chairman GONZALEZ. Thank you. Does any member wish to ask any questions? Thank you again, Congresswoman. I know that you have a full schedule.

Thank you, Ms. Gregory. We will proceed with our second panelist, Ms. Burgo, who is a resident of the Gilpin Court Housing Development in Richmond. And, as I understand it, you are the single head of household and you found employment and enhanced your income and found your rent increased. We are anxious to have your testimony.

#### STATEMENT OF BARBARA BURGO, RESIDENT, GILPIN COURT HOUSING DEVELOPMENT, RICHMOND, VA

Ms. BURGO. Thank you for inviting me here to discuss the financial problems I confront as a resident of public housing and a working parent of three.

Chairman GONZALEZ. Could you get closer to the mike.

Ms. BURGO. My name is Barbara Burgo and I have lived in the Gilpin Court Public Housing Development in Richmond, Virginia, since 1991. I am on the executive board of Gilpin Court's Tenant Council, which represents 2,600 residents. I have three children of whom I am exceedingly proud; an 18-year-old daughter about to graduate from high school, a 16-year-old son in the ninth grade, and an 8-year-old daughter in elementary school.

My older daughter has recently been inducted into the National Honor Society and has a 3.9 grade point average. My son works

part time as a teen leader and mentor to other teenagers in a program operated by the housing authority. The children are proud of the T-shirt business they began last year which made them \$20,000 in that year's time. My youngest daughter is a straight A student at Carver Elementary School.

As for myself, I have completed a GED Program in May so I have a high school equivalency degree. And I am planning to enroll in a local community college to get a degree in social work. I worked most of my life, at least since the age of 14. When I first moved into public housing in 1991, I worked as a waitress for F.W. Woolworth's.

My annual income was \$7,000 a year. The rent I paid in Gilpin when I was employed was \$168. I lost my job because the day care provider for my youngest child would not pick up from the Gilpin area because of its location. I, therefore, had no day care for my child and had to give up my job.

I applied for, and received, Aid to Families with Dependent Children, food stamps, and Medicaid. For almost 2 years, in 1991, through 1993, these public assistance programs kept me and my family afloat. My reduced income reduced the rent to \$43 per month. During that time, I enrolled in a 9-month leadership training course at Gilpin, sponsored by a number of corporate employers in Richmond. There were 2 classes of 18 women who lived at Gilpin and other Richmond public housing sites.

The leadership training taught us conflict resolution, media relations, networking, and agreeable disagreeing, among the other skills. During this time, I applied for a position with Friends Association, a local nonprofit organization which operates a day care and a social service center. After waiting almost 1 year, I finally got a job as a social work assistant at the center. My new job pays me \$408 every 2 weeks after taxes and I have begun to save for some of the necessities which me and my children have put off for so long.

The downside of that is that my rent tripled as a result of my increased income to \$279 per month. That, combined with the sudden loss of both Medicaid, health insurance, and food stamps was very hard to adjust to.

My food stamps had been worth \$279 each month. Now, I find myself with two teenagers eating me out of house and home, spending about \$400 each month on food. I realized how much the food stamps helped with my basic living expenses when I had to go to the grocery store to try to stretch my hard-earned dollars. I realized how frivolous I had been in the past with food stamp purchases.

After I pay the rent of \$279, that leaves me about \$137 for everything else. If any of you have schoolage children, you know how expensive they can be. For example, my son's French class just took a school trip to Baltimore. The bus cost was \$20 plus the cost of lunch once he got there, which I simply didn't have. I borrowed it from my mother. Thank goodness for grandma.

Another necessity which most people take for granted is the telephone. I can't afford one. It has taken me 1 year to save up enough money to have the phone service turned on. Believe me, my children and I have looked forward to this past Monday, the 15th of



the month, for a long time because it is when I get paid and I finally have enough to turn the phone on. My son says the phone will improve his social life. With two teenagers I may not get to use it very much, but at least I will be able to be connected to the real world.

The loss of Medicaid, once I became employed, was a shock to us. The minute you get a job you lose your Medicaid benefits which meant my three children were without health insurance for 4 months before my employment picked them up. During this time, my son injured his hand at a high school football game. It required eight stitches and a trip to the emergency room. The hospital bill was \$279. I didn't have the money at the time and I said I would pay them in installment payments over several months, but the hospital insisted upon a payment right away or else they would garnish my wages. The place where I work has a policy of terminating any employee whose wages are garnished.

It was like a vicious circle. I found out that Medicaid would cover the cost because it had occurred within a grace period after we were taken off of the Medicaid. The hospital bill was paid and I didn't lose my job. My son's hand healed, but it was still scary.

It was especially hard on my children when I became reemployed. They thought all of our problems would be over, that they could have the clothes they wanted, we could go out to eat or to a movie and that they wouldn't have to live so close to the table anymore, always counting our pennies. But, in fact, the income I earned after taxes, rent, food, and health care costs is almost less than when we were on public assistance.

There are times when I think I did much better on lesser income through public assistance programs. Taxes weren't deducted. The rent remained steady, and my children had health care coverage. The food costs seemed to be more manageable with food stamps.

What I am trying to tell you here is that it is not easy being a low-income wage earner in today's world. I am trying to get ahead by keeping a steady job, raising my children right, and seeing that they have at least a few of the clothes and outside activities that their peers do and pursuing my own career path toward a degree in social work. There are lots of other mothers in the same position.

It would certainly help if you could see that we, at least get a break on the rent, when we are out there earning a living and trying to get ahead. Thank you for letting me speak to you today.

[The prepared statement of Ms. Burgo can be found in the appendix.]

Chairman GONZALEZ. Thank you very much.

Mrs. Roukema.

Mrs. ROUKEMA. Thank you, Mr. Chairman. I just asked for this moment. I must tell you and the panel that business on the floor over at the House floor kept me from the introductions, but since Ms. Burgo has specifically addressed one of the problems that my own New Jersey group addressed at a breakfast meeting this morning, I wanted to acknowledge the New Jersey group that is here, and I believe that they have made very great strides in identifying an agenda for us and focusing on the real issues and problems, especially as Ms. Burgo has outlined them for us.

Would our New Jersey people like to stand up and be acknowledged. We have a large group here today. Thank you.

Thank you, Mr. Chairman.

Chairman GONZALEZ. Thank you.

Our third witness is Ms. Andrea Duncan, president of the Council of Large Public Housing Authorities and the executive director of the Housing Authority of Louisville, Kentucky.

**STATEMENT OF ANDREA DUNCAN, PRESIDENT, COUNCIL OF LARGE PUBLIC HOUSING AUTHORITIES, AND EXECUTIVE DIRECTOR, HOUSING AUTHORITY OF LOUISVILLE, KY**

Ms. DUNCAN. Thank you, Mr. Chairman for inviting the Council of Large Public Housing Authorities to testify today. We are grateful to you for your special leadership in public housing and to Mrs. Roukema and your other colleagues for their support. Your efforts have been rewarded.

Several large public housing authorities have moved off the troubled list and 40 are now high performers. We are encouraged that the Cisneros Public Housing team is calling upon the industry itself for a major direction in the reinvention process.

As leader of the working group of high performing housing authorities I am hoping that the Department will be embracing our suggestions, one, that the high-performing PHAs represent a low risk for the Department; that they have proven competence and as such should be automatically released from all regulatory requirements that have to do with how they run the business; that they be allowed to keep the dollars saved from release from these costly bureaucratic requirements; and that they serve as laboratories for developing new models of public housing service delivery.

To the extent that statutory changes are necessary to implement such a bold new direction, we hope that Congress will be supportive of these and all other initiatives to relieve us of excessive bureaucratic micromanagement. We applaud and support the Housing and Community Development Act of 1994, H.R. 3838 as very progressive legislation.

There are also important features in H.R. 3838 introduced by Mrs. Roukema we hope will become law.

First, H.R. 3838 is a welcome rejection of HUD's startling and disabling cuts for public housing. Simultaneous with an overall increase for the Department, HUD shrinks the public housing budget by \$1 billion below current appropriations and would provide just over 80 percent of the needed operating support.

We urge you to authorize \$3.3 billion for operating subsidies that we firmly believe is necessary for decent public housing. You should also know that there is no backlog in modernization that warrants the proposed reductions. Housing authorities are spending 85 percent of their funds in just over 3 years after receipt from HUD and that is a commendable rate.

The hundreds of us who are even with the pipeline should not be penalized for the few who are stuck in it. Nor should our residents be punished who are awaiting better housing.

To step back from current mod levels would undermine the fine reform that you made in the National Affordable Housing Act. Close to 10,000 jobs would be lost from the modernization and

severely distressed cuts. Jobs are essential to the revitalization of our inner cities.

I was encouraged last June when I testified before you on the Public Housing Development Program. I hope you recall the successful scattered site housing from Louisville which shows how public housing helps revitalize inner-city neighborhoods.

The Development Program is yet to be reinvented, but should remain as an effective local resource for creating affordable housing and a most basic strategy in mitigating homelessness.

The merger of the Certificate and Voucher Programs is, however, reinvention at its best. We refer you to our November testimony before this subcommittee for more detail on that. We do point out that if our Development Program is to be eliminated, that properly funded, long-term project-based assistance becomes an essential tool for the creation of low-income housing to meet replacement requirements as we weed out inhumanely designed and overbuilt family developments.

Community Partnerships Against Crime [COMPAC] builds nicely on the Public Housing Drug Elimination Program and we salute the Secretary for his initiative here.

We suggest that the statutory language in H.R. 3838 be clarified to overcome shortcomings of the current Drug Elimination Program, both that of erratic awarding of grants and the lack of multiyear funding. HUD notes that 85 percent of the murder and robbery crime is in large housing authorities.

CLPHA urges that not less than 75 percent of the funds be awarded to these housing authorities proportionate to their number of units. Without that, we could see again what happened last year. Authorities in major cities, Akron, Albany, Baltimore, Cleveland, Columbus, Miami, Harrisburg, Louisville, Memphis, New Haven, New Orleans, and Washington, DC, received no funds while many monies did go to small agencies. Louisville got nothing but documented more drug activity than all the other Kentucky drug grant winners together. To distribute funds on a per unit basis is to ignore why the drug grants came to be: Mounting big-city crime.

To underscore my colleagues here today, rent reform would be the greatest incentive for our residents to get and to keep jobs. CLPHA suggests at the very least reforming the pre-1981 10 percent earned income deduction in calculating rent. Working families such as we just heard deserve no less. No method of reform is simpler, fairer, or less bureaucratic.

For severely distressed public housing, authors of the HOPE VI legislation hoped to see that program treated by HUD as a unified program, free of the individual, obstructive program regulations, handbooks, and practices which have hampered past efforts. Yet, HUD is still struggling to kick its old habits.

We welcome the efforts of Mrs. Roukema and cosponsors of H.R. 3838 to streamline section 34 of the Housing Act and H.R. 3838 proposed improvements. However, broader reforms and deregulation are called for.

Last, our greatest disappointment is that elderly residents in public housing, unlike their affluent contemporaries in private housing, continue to face the burden of living with single persons generations younger who often suffer serious mental impairments.



Headline stories continue to pop up throughout the Nation about assaults of all kinds. Fears mount among these old persons who should be granted peace.

A year-and-a-half after the Housing and Community Development Act of 1992 intended to solve the program, HUD has proposed regulations that are found wanting by virtually all. Poor elderly are just as entitled as those well off to live separate from the young, be they disabled or not. Some 30 percent of the elderly are themselves disabled. The issue is not disability, but age.

Our members respect the desirability of offering disabled residents a choice of living environments, but likewise we wish to offer our elderly residents a choice, that of living with young people or not, which is absolutely legitimate and legally proper. We urge the subcommittee to revisit this issue. No relief for our elderly is in sight.

We again thank you, Chairman Gonzalez, for the spirited and informed advice that you have given to the residents and agencies of public housing. We think that your bill represents progress for all and we look forward to working with the subcommittee to advance further recommendations regarding it.

[The prepared statement of Ms. Duncan can be found in the appendix.]

Chairman GONZALEZ. Thank you very much, Ms. Duncan.

Mr. HISCOX. Did I pronounce that right?

Mr. HISCOX. Yes, you did, sir, and I think you win a prize. You are the first person in the world to get it right the first time. I am genuinely amazed.

Chairman GONZALEZ. When you have a good, old-fashioned American name like mine, you have no problems.

**STATEMENT OF JOHN HISCOX, EXECUTIVE DIRECTOR, MACON, GEORGIA HOUSING AUTHORITY, ON BEHALF OF THE GEORGIA ASSOCIATION OF HOUSING AND REDEVELOPMENT AUTHORITIES, INC.**

Mr. HISCOX. Thank you, Mr. Chairman, sir, and thank you most particularly for the chance to appear before you today. I would like to discuss rent reform.

Rent reform has been our sole legislative priority for the past 2 years. This is because we believe that rent reform is far and away the most important housing policy initiative on the table today simply because no single issue has as much power to improve the welfare of the families we serve, and the communities in which they live, while favorably impacting on the Federal budget.

We have presented some fairly elaborate written testimony to you and it is full of graphs and charts, and that sort of thing. But I will excerpt very briefly from it.

I would like to speak to two issues within it. One is I would like to outline the urgent case for rent reform, and, second, I would like to speak to the expected cost and savings.

I would like to mention, also, that I am accompanied by three residents of public housing in Georgia today. And they are but a small part of a delegation of almost 50 public housing residents who came with us to Washington. The other 40 some odd are on

the Hill as we speak visiting Georgia Congressmen and Senators to talk about rent reform.

To take a look at the issue, we almost have to begin at the beginning, the history of public housing. Historically, in fact, for most of our 55- to 60-year history, public housing was a strong engine for upward mobility for low-income families. People moved in and got a decent place to live and they got to their feet and they moved up and out.

Some of America's more distinguished citizens grew up in public housing, but beginning in the late 1960's and culminating in the 1980's, a series of legislative changes occurred which swapped positive incentives for negative incentives. The net impact of this on families is devastating. The highest marginal tax rate in the United States is not paid by millionaires, but it is paid by poor AFDC recipients who live in public housing who have the temerity to go to work.

We calculate that when run through a spreadsheet with Georgia welfare law that the marginal tax rate is effectively 120 percent. It varies some from State to State, depending on the welfare level of benefits, but in many States it is much higher.

Representative Roukema, in your State, for example, it is approximately 137 percent. This is the steepest tax imaginable. You go to work and earn \$1 and you wind up \$1.37 worse off. I doubt that you can see to read the chart, but we are not talking about theory. We are talking about measurable, actual dollars.

The example that we have from Georgia shows that the family that goes to work winds up 104 cash dollars a month worse off by accepting minimum wage employment. Nor does it get significantly better as families attempt to work their way up to the level of \$7.35 an hour. That is 75 percent above minimum wage and in Macon, Georgia, that is a pretty good job. However, after rent increases you are still just barely pulling level with AFDC. The impact on working families is unbelievable.

What generally occurs is that a working family who is paid once a week has to spend two of their four weekly paychecks to pay their public housing rent, often going without food and other necessities, as Ms. Burgo said just a minute ago. This is simply because public housing rent is charged based on, for all practical purposes, gross income.

If the impact of this on families is devastating, the impact on neighborhoods is worse still. When you combine an extremely large number of very low-income families in an artificially high density environment like public housing, you create a situation in which negative social outcomes begin to feed on themselves.

Please understand, we strongly believe that AFDC families are perfectly capable of being good parents, good neighbors, and good citizens, but nevertheless when you create a high density area that has no one but AFDC recipients in it, you compound the negative social outcomes. We create an environment that in many cities and in many public housing developments that represents the highest concentration of social needs and social problems that we will find anywhere in our society outside of a walled institution.

The cost, of course, to HUD, and to the government for this is considerable. A lot of appropriations we have asked you for in re-



cent years have been for programs to help us cope with those problems. There is a near universal agreement that this needs to change. A groundswell, I believe Mr. Armstrong called it.

I think it is probably turning into a groundswell that is about 7.2 on the Richter scale. All of the major public housing associations have endorsed rent reform. HUD has endorsed rent reform and members of this subcommittee have made important initiatives in the area of rent reform. All of these things are worthy of consideration.

GAHRA has coauthored with PHADA a position paper and Mr. Parker is going to comment on the specifics of their legislative recommendations in a minute. Suffice it to say that successful rent reform, that is rent reform that is going to make a difference and cause families to go to work, will have to contain two vital elements in order to succeed.

One is that we will have to have ceiling rents that do not exceed the fair market rent for that apartment. And second, there will have to be deductions from earned income to enable a working family to have their income counted on the same basis as unearned income, to level that playing field.

With so much unity, Mr. Chairman, what is the problem? Well, the problem, of course, that we keep hearing again and again, is cost. Rent reform is going to be expensive. If we cut anybody's rent by a dime it is going to cost the Federal Treasury a fortune. To understand the problem we again have to look at history.

PFS operating subsidy, which we ask you to appropriate, has been running amuck for the last decade. If you take a look at the graph, you might not be able to read the fine print, but you can certainly see the shape of the curve. In the early 1980's, when the last of the major Federal changes affecting rent went into effect, that is, the institution of the 30 percent rent-to-income ratio and the abolition of ceiling rents, there was indeed an immediate savings of PFS operating subsidy.

It drops very radically in the first year. And for the next three or four, we had a very slow growth of about 2.5 percent a year, less than inflation. And so far it looks like we have had a masterpiece of Federal policy here. Somebody who thought this up should get a plaque. But it masks a dark undercurrent.

What is happening here is that we have triggered the exodus of the working poor from our public housing developments. We were persecuting them out of our neighborhoods. The reason that it took 5 years to take effect is that the law itself provided for a maximum 10 percent per year phase-in. It took that long to take effect. This process was complete in 1986, and since then PFS operating subsidy has grown over 68 percent in the last 5 years. This is 2.2 times inflation. With numbers like this, it is obvious that doing nothing about rent reform is killing us. The most expensive option of all is to do nothing.

There is a short-term cost, but we believe that it is small and temporary. It is a great deal smaller than the gains of a decade ago simply because it affects so many fewer people. The working poor have exited our neighborhoods. In our housing authority a decade ago we had 1,000 wage earners and we are now down to 370. We had approximately half of our residents receiving AFDC or other



government transfer payments. It is now up to 91 percent. Obviously, more rental income is necessary to deal with subsidy problems.

We estimate that the initial one-shot cost for all of the rent reform measures that are proposed by PHADA is approximately \$160 million the first year. It sounds like a lot of money, but it is only 4.5 percent of total PFS and a much, much smaller fraction than that of the total HUD budget.

Some of the measures that have been proposed are ridiculously low in initial costs. For example, the PHADA proposal says that we should exempt 10 percent of the earned income for two-parent families. We estimate that that will cost one-tenth of 1 percent of total PFS. Once families begin to work, serious savings start to roll in. Again, I don't expect you to read the fine print from that distance, but we simply tabulate the savings to the Federal Government that occur when a family goes to work.

We have a comparison of two different scenarios here, one at the minimum wage level and the other at \$7.35 per hour level. There is significant savings here from FICA paid, from higher public housing rent, from reduced food stamps, from the elimination of AFDC, from savings of not paying Medicaid. We give proper credit and subtract all of the earned income credit. The net effect of all of these is to save the government \$801 a month on this family.

Now, that \$801 a month is balanced against the cost. That cost is the windfall in lowered rents for similarly situated families that are already working. That windfall in lowered rent is \$44. That is the cost to the Federal Government. When compared to the savings of \$801 per month, there is a ratio of 18.2 to 1. If we have one family that chooses to go to work, they have paid for the windfall lowered rent savings for 18.2 families. That is a tremendous savings to the Federal Government.

We urge a serious consideration of the rent reform measures before you. We believe they will lead to more stable families, to more youth transitioning to self-supporting adulthood, increased upward mobility, reduced fraud (as people have less incentive to tell us lies about their income, and family composition) and ultimately to healthier neighborhoods. Thank you very much.

[The prepared statement of Mr. Hiscox can be found in the appendix.]

Chairman GONZALEZ. Thank you very much. And let me point out to my colleagues that in the prepared statement that Mr. Hiscox has given us he has these charts available to you.

We recognize Mr. Parker and if the question is asked why do we have this Georgia domination, it is very interesting. It was from the State of Georgia that the officials first brought to our attention a need to have reform, rent reform.

**STATEMENT OF J. RICHARD PARKER II, EXECUTIVE DIRECTOR, ATHENS, GEORGIA HOUSING AUTHORITY, ON BEHALF OF THE PUBLIC HOUSING AUTHORITIES DIRECTORS ASSOCIATION, WASHINGTON, DC**

Mr. PARKER. Thank you very much. And as executive director from Georgia, we appreciate those kind remarks, Mr. Chairman. I

am glad to be here representing the Public Housing Authorities Directors Association.

As you have heard in some detail this morning, most major industry groups and all residents agree that reform of the public housing rent structure is imperative. While each groups' proposal may differ, we are all united in urging the adoption of meaningful comprehensive measures during this session of Congress.

Public housing authority directors daily see the suffering inflicted by unfair rent regulations upon our residents such as those so ably described by Ms. Burgo. This is what motivates us to bring this issue so strongly to the national agenda.

Here we would like to thank the Georgia Association of Housing and Redevelopment Authorities for their ground-breaking work on this issue. You have heard Mr. Hiscox describe the mechanisms by which the negative incentives built into the public housing rent structure discourage residents from employment, devastate our neighborhoods, and skyrocket the Federal subsidies necessary to provide quality housing to citizens of limited income.

I would like to outline the elements of our legislative proposals for curing a seriously sick system.

The key elements of successful rent reform can be divided into two principal areas: Ceiling rents and exclusions from earned income. Ceiling rents are the first major components of the PHADA/GAHRA proposals. They allow wage earners to build savings in preparation for a transition to the private sector and in addition they help retain working families by not charging rents based on income that exceed the actual value of the apartment.

The PHADA/GAHRA bill provides three alternatives for calculating ceiling rent and allows the public housing authority complete discretion regarding which individual method to choose.

The first method is the current HUD model based on debt service and operating costs. The second method sets the ceiling rent at the 80th to 90th percentile of current rent being paid by families now residing in each development. This approximates what persons are now willing to pay for such units.

Method three employs the section 8 rent reasonableness test. This approach sets the ceiling rent at not less than the fair market rent determined by the PHA for comparable units of similar size and amenities. The PHA may set different rents for each of these developments. This recognizes the real market differences between inner city and suburban neighborhoods.

Ceiling rents would be adjusted annually and must be increased when more than 25 percent of the development are receiving this benefit.

Further incentive for upward mobility would be provided by allowing a family to receive this benefit for only 3 full years. Benefits would then be phased out over the next 3 years at 85 percent, then 65 percent, then a 40-percent ratio.

And finally, to protect families who fall below the ceiling rent for 12 months, they would receive a new 3-year time period followed by the phaseout.

The second major component of the PHADA/GAHRA legislative plan is to exclude portions of earned income from the rent calculation. This would help approximate net income.

The first exclusion is a flat 20 percent of all earned income and is described to approximate that net. Without this measure, employed residents are charged rent approaching 50 percent of their take-home pay, while unemployed residents pay rent based upon 30 percent of their income.

The GAHRA/PHADA bill offsets the mandatory payroll deductions of Federal income tax withholding, State income tax withholding, and FICA, thereby resulting in a fairer rent for employed residents. Rather than requiring a detailed review of paycheck stubs to determine net income, a single 20 percent exclusion also has the advantage of administrative simplicity.

Next, an additional 10 percent of the earned income from two-parent families with children would be excluded from the rent calculation.

Studies have consistently shown that children from single-parent families are at greater risk. Unfortunately, this component appears to be absent from all other legislative proposals. This is particularly unfortunate since, as Mr. Hiscox has alluded to, the cost of this rent reform measure is negligible. Two-parent families are conspicuously absent from public housing.

One of the most formidable obstacles faced by the newly employed was ably described by Ms. Burgo and that was the loss of medical coverage or the reduction of income for having to pay for medical insurance. The GAHRA/PHADA bill would offset this penalty.

Health insurance premiums and out-of-pocket health care costs, excluding 3 percent of income, paid by the resident family for family members not eligible to receive government health care assistance are excluded from the rental calculation.

Finally, this proposal would encourage family stability and first time employment among youth. Youth abandon their families, quit their jobs, or defraud PHAs rather than contribute 50 percent of their new income toward their parents' rent. Therefore, all income from formerly dependent minor children would be excluded from the rent calculation from ages 18 to 21.

This benefit would then phase out over the next 3 years in the same fashion as ceiling rents. Again, the cost of this measure is negligible due to the very small percentage of working young adults in this age group residing in public housing.

Now, we believe that these proposals provide a sound framework for reforming public housing rents. However, there are elements of several other plans which have merit. In particular, H.R. 3888, formulated by Representative Roukema, is particularly attractive to our membership. It effectively deals with most of our concerns with only two real differences.

We would strongly commend careful consideration of this bill to the subcommittee. However, regardless of whatever methodology used to achieve rent reform, let me stress two important points.

First, we must not provide half the cure for twice as many people. You should not remove only a portion of the malignancy affecting public housing rents.

Second, the details of any rent reform plan are less important than the results. We must completely remove the negative incentives inherent in the current system. If persons with unearned in-



come remain better off than working residents, then the plan will fail.

An example of this is one of my own residents who I would like to just briefly stand at this point, Ms. Judy Jackson. And if the subcommittee at some point would like to ask her some questions, I am sure she would be happy to answer them.

Ms. Jackson is one of those rare individuals who represents a two-person head of household. She recently obtained part-time employment with our agency. She was the best qualified person for the job. Unfortunately, under the current regulations, and without additional deductions for two-parent heads of household and real rent reform, she is working for us for free. Yes, you heard that right, in effect she is working for us for free because nearly every single penny that we pay her is consumed in public housing rent back to our housing authority.

Unless we do something about these kinds of situations and the situations outlined by Ms. Burgo, we will have failed our residents and our customers. Public housing residents will not seek employment without sufficient rent reform or they will do so only temporarily and we will waste scarce Federal resources.

In conclusion, if our society owes anything to public housing residents beyond shelter, it owes them a reasonable opportunity to work and improve their own lives. These proposals would establish a new public housing rent structure which encourages employment and upward mobility without penalizing any other residents, while at the same time decreasing the need for government subsidy to public housing operations.

Please consider these proposals and concepts as you finalize your Omnibus bill. We look forward to working with you on this critical matter. Once again, thank you for the opportunity to share our views before this subcommittee.

[The prepared statement of Mr. Parker can be found in the appendix.]

Chairman GONZALEZ. We have got to proceed as rapidly as possible, so we will stick and adhere rigorously to the 5-minute rule.

Your testimony as given to us, is excellent, very fulsome in its documentation, going beyond the question of rent reform. I just would make a general observation. I think like so many other things in our country, such as the universal annual conscription service law that in the later developments, beginning with the 1950's, the Korean war and then the 1960's, obviously, became something that had to be reformed. But it wasn't obvious.

The transition was not that obvious. The difference being that World War II, as well as World War I, were formed on the basis of a formal declaration of war by the Congress. And there are other things that have imperceptibly grown without any focusing on the problem. And that is the same with public housing.

The original public housing families were broke; they were not poor. They were unified families. Remember, this was before 1941 and you had very few or a small percentage of a female work force. You had this family unit intact.

I am sure if we tracked the divorce rates it is a dramatic difference.

I became a Member of the Congress and was assigned to this subcommittee 32½ years ago, and, in fact, one of the chairmen, Mr. Bill Barry from Philadelphia, began to call me Mr. Public Housing, because nobody was for public housing.

Everybody wanted to do something about public housing. But by the time we got around to the 1950's and the 1960's, in order to qualify for public housing, you had to have all the problems that any family could have. You had to be on relief, to begin with. Then you had to be a fractured and fragmented family, really, and then you qualified for public housing because those were families that were very, very poor.

Finally, we are coming to the point where we are realizing that you have to have some adjustments in this time-honored formula. The original formula, that was no more than one-fifth income should be paid for rent, so that is history.

Mr. Armstrong, your referral to the President's remarks about welfare are some of the things that I am very critical of this President. It sounds good. It has a great sound. Three times and you are out. Welfare as we know it and then the old cries, not welfare, work fare. That is great. Sounds great. But that is not the problem. Welfare is not the problem. The problem is poverty.

The same thing with crime. My gosh, we go into these spasms. Crime, we have got to do something. We will target \$10 billion. We have got to have law and order. No society in mankind's history can have law and order until you first have law and justice. Until you have law and justice, you will not have law and order.

So where does that leave us? Well, Mr. Hiscox, I think your presentation was most dramatic and the fact is that you can sum it up in an old English saying that says—and that applies to Ms. Burgo—a poor man's shilling is a penny. The poor always have to pay more.

And Ms. Burgo exemplifies a very disturbing factor that over 3 years ago came across the horizon in our economic situation, and that is that over 70 percent of our families, at the end of the month, have no disposable income. I have gone through that period in my own lifetime. It was not through necessity though it was through a choice. I know what it is at the end of the month just not to have enough. So with that, if I have any questions, they will be mostly staff level questions to extract some supplemental statistical information because your presentations were excellent.

Ms. Duncan, you can rest assured that I worked for the San Antonio Public Housing Authority for 3 years and we were able to relocate 454 families by evading the old public housing agency rules and regulations. And so, I am in complete sympathy.

It is funny how the people who talk about getting the government off our backs are the ones who want to impose more government control on what they call welfare or the public housing, and I have never been enamored with the PFS magic formula.

Anyway, Mrs. Roukema.

Mrs. ROUKEMA. Thank you, Mr. Chairman. I want to thank this panel. Your testimony has been extremely helpful and particularly since you like my rent reform proposal, so I appreciate the kind words. It may not be perfect. We may have to work through as we

go along. But I do appreciate the fact that you are in support of what we are doing here.

And, Mr. Hiscox, I must tell you that we will go over the documentation you gave. If true, and it certainly seems to be true, that it is exactly a case of unintended consequences, the law of unintended consequences. The fact that we reduced the subsidies and had the concentration of—or rather the exodus of the working poor as you put it. And I think we will have to pay particular attention to that and, of course, our biggest concern on rent reform, aside from what it does in principle is how we are going to pay for it. So we will be looking at those numbers.

Ms. Duncan referred to an issue that is particularly close to me and that is the problem of mixed populations. I am just terribly distressed and have been working to reverse that and get the regulations out and the operations so that we can deal with the problems of the elderly in both elderly housing 202, as well as the public housing problems.

But I am afraid that, you know, HUD has not been as forthcoming as they should be. They certainly haven't acted promptly the way they should. And I am still looking over those regulations. I think they fall seriously short. You made that point.

Can any of you give us any more direction, because I am just ready to make it another crusade to do whatever we can. In fact, our Suspension bill next week, I know what the Senate wants to do with it and it may be contradictory to what we want to do in terms of solving the mixed housing problem.

Ms. DUNCAN. We would be happy to work with you on that crusade.

Mrs. ROUKEMA. Does anybody have any recommendations for me?

Mr. PARKER. PHADA's position on this is that you ought to start over. I know that is not terribly helpful, but we have filed comments protesting the regulation and urging the Department to withdraw it and begin the regulatory process anew. And our copy of our comments, I think, was forwarded back on March 3. We still believe that you can get equitable and workable regulations in a short time, even with a start over. But PHADA's official position is, it is unworkable and needs to be begun anew.

Mrs. ROUKEMA. Mr. Armstrong, yes?

Mr. ARMSTRONG. We at NAHRO agree with what he said. Our big question is whether you want to have housing for the elderly. If you want to have housing for the elderly, then we ought to have that. If you are going to mix the elderly in with a whole bunch of other people, then it is just not housing for the elderly. And when he said we should start over, that is not a bad concept because we need to determine if we are going to have housing for the elderly. And if we are going to do that, let's make it for the elderly.

Mrs. ROUKEMA. Let me go over your recommendation because I am not going to stand by and let HUD take another year to deal with this. I think we ought to wage some revolt in Congress. I don't know if the chairman agrees with me or not. I know that there are a lot of other Members, particularly freshmen Members of Congress, who are coming to me on a regular basis because they are hearing from the folks at home that this is a growing problem.



Ms. DUNCAN. I think that nonelderly disabled singles should be housed with other nonelderly singles. That is one solution that you could provide.

Mrs. ROUKEMA. I should have always taken that position. Mr. Kleczka and I have worked together on this and we have gotten this far. Thank you very much. I appreciate it.

Chairman GONZALEZ. I believe you were here first, Ms. Velazquez.

Ms. VELAZQUEZ. Thank you, Mr. Chairman. I want to first thank you all for your outstanding work that you are doing on behalf of the residents in public housing. And it seems that it is very fashionable and politically correct these days to talk about health care reform, welfare reform as we know it, and all kinds of reform. But to me, the reality is that the government has done everything within its power to keep residents in public housing from becoming self-sufficient.

And, particularly, I would like to really go ahead. And I congratulate Ms. Burgo. I was very moved by your testimony. As a woman of color, I share your struggle and your pain and my constituents can also identify with your testimony, almost 80 percent of my district. Your story is their story, too.

Ms. Burgo, I think that my colleagues throughout this body should also hear about and learn from your history. I ask that you consider coming back to address Congress when we begin consideration on welfare reform, as we know it. I think that we have a lot to learn from you. Thank you.

Thank you, Mr. Chairman.

Chairman GONZALEZ. Thank you very much. I think we have 5 minutes before we have to vote. Mr. Bereuter.

Mr. BEREUTER. Thank you, Mr. Chairman, I want to thank all of the panel for their testimony and give a special welcome to Mr. Armstrong since he is a Nebraskan. Not my constituent but all Nebraskans are aware of his achievements. He is an aggressive innovator. Some people are afraid to innovate because they are afraid of being wrong. Mr. Armstrong rarely is.

I remember well, Ms. Duncan, your testimony last year. It stimulated me to go and try to put together a reform bill on one aspect of housing reform, public housing reform and that is the construction process. And so, I have a draft bill that I would like to share with all five of you for your reactions after the hearing.

I need to go to address 100 Close-Up kids after this, so I may not be back on time. But one of the keys of turning over more discretion, a high degree of discretion of what are called high performer housing authorities would be to tie it to the Public Housing Management Assessment Program. And I am not at all convinced that that is an adequate management system, so I am uncomfortable in tying it to that. And so I would like your comments about what I can tie it to or how I can reform the PHMAP.

And, Mr. Armstrong, I am particularly interested in your suggestions, as a former NAHRO member myself a long time ago, but rent reform, as I am in all those comments coming forward. And I am particularly anxious to have more detail from you, each right now, about your sharing of efficiency management savings. Can

you say a few more words about that and then I will conclude my questions with that question.

Mr. ARMSTRONG. Sure, I will give you an example, Congressman Bereuter. In 1986, when we took over the Omaha Housing Authority, the average stay in Omaha public housing was 7 years and 3 months. The average stay over the last 2 years has been 3 years and 4 months.

We have been able to do that by having a program designed to help people get out of public housing as quickly as possible in a positive way. The money that we save and the money that we use directly benefits the residents by being able to use that money to have programs designed to help them and their families get out of public housing as quickly as possible. So it is not difficult to do.

Public housing directors, and I must say this, are probably some of the best managers in the country. Most people don't realize the difficulty that we have in managing public housing because of all these rules and regulations that many places just don't make sense. We are trying our best to work on our residents to make sure that they become independent as quickly as possible and we are asking for rules and regulations that will allow us to do that.

Chairman GONZALEZ. The subcommittee will stand in recess to allow the members to record their vote for about 10 minutes. Mr. Knollenberg, will you have questions?

Mr. KNOLLENBERG. I will, but I will be very short.

Chairman GONZALEZ. OK, we will come back.

[Recess.]

Chairman GONZALEZ. The subcommittee will please come to order.

Mr. Knollenberg.

Mr. KNOLLENBERG. Thank you, Mr. Chairman. I sincerely appreciate the extraordinary testimony of all of you, and I appreciate also some of the complimentary language that you had in your written testimony that reflected on some of what we are trying to do in working with you. And I just wanted to assure you and the chairman and this group, in particular, the panelists, that we will work with you, from my perspective and with the ranking member, Mrs. Roukema, to achieve what it is that you sought for so long.

The disincentives were, in fact, to me, a revelation when I first came to Congress when I found out what is in place, what the obstacles are. And, Mr. Hiscox, you referred to the marginal tax rate which is not paid by millionaires. It is not paid by members of the boards of America. It is paid by people in public housing and that astonished me, and we do have to do something about that. There is no question that this group and the folks in the audience want to do something about reforming rent reform.

I wanted to refer, first, to Ms. Burgo in regard to a question that has to do with the people that she works with in the position that you are in on the executive board, I believe.

Ms. BURGO. Of tenant council or my employment?

Mr. KNOLLENBERG. Your position with, I think—it is called the Gilpin Court Public Housing—

Ms. BURGO. Tenant council.

Mr. KNOLLENBERG. And you serve on the executive board there. You must hear from countless people, and I am not going to ask

you how many people you hear from, but you do, I am sure, with some 2,600 residents, about this problem often, do you not?

Ms. BURGO. Quite a few, many that want to seek employment. I am of the notion that public housing residents want to be viable, productive people in society. They really don't want to just sit in the system and take from that system. They want to give something back, given the incentive to give back, but as it is structured now there are many disadvantages to going to work.

Mr. KNOLLENBERG. The case you gave is a clear example, one of the best that we can point to. And I borrowed from information from the folks in Georgia to arrive at what we architected and we will look for that, obviously.

I have a question now, and this could be referred to anybody, but from this testimony we have got to do something about the income disallowance. And everybody, I think, has talked about that to some extent. But I think the effects of ceiling rents are not quite as clear. And I don't know, could somebody in the group, and I don't care whom, Mr. Armstrong or Mr. Hiscox, refer to and highlight some of the effects of that?

Could you briefly do that for me?

Mr. HISCOX. Bob, would you like to go first?

Mr. ARMSTRONG. You go ahead, I will yield to Georgia since you started that.

Mr. HISCOX. The first thing that people need to realize is that ceiling rents by themselves are not the only needed rent reform. They are part of an overall rent reform package. The main reason we need to say this is that in very rare exceptions, by any method that ceiling rents are calculated, minimum wage employment at 40 hours a week or \$5 or \$6 an hour employment is not going to put the family at ceiling rents.

The purpose of ceiling rents is to encourage the family to hang on for that second rung in the ladder. The income disallowance gets you out of AFDC and on to the first rung, ceiling rents let you make that second step to the \$6 or \$7 an hour range or one wage earner at minimum wage and another family member working part time.

When you get on that point, ceiling rents give you a period of time to get used to paying a true market rent so that you can successfully make the transition to private sector housing. Particularly, it lets you get on your feet long enough and begin savings if you want to become a homeowner.

I commend the last several administrations at HUD on their new found interest in homeownership, but if we can't keep people in stable employment long enough, that will not happen. We have in our group a number of people who pose that exact same scenario. They want to move out of public housing, but they can't get \$10 ahead so that they can.

Mr. KNOLLENBERG. Mr. Armstrong, would you like to add, too?

Mr. ARMSTRONG. Yes, first, I would like to thank you for the work that you are doing. For a freshman Congressman to have come in and do all the work that you are doing, we are all appreciative of that. We are trying to have a system where it is more advantageous for people to work than not to work; that those people who are low income by circumstances, not by choice, no one



wants to be poor, have an opportunity to get out of poverty in a way with dignity and respect.

Any system that does not allow them to do that is a bad system. And what we have today is a bad system. The rent reform that we have proposed, forget the small differences, because all of us are really on the same track. The rent reform that we are proposing would allow low-income people to keep some of their earnings to be able to try to get out of public housing in a positive way with some dignity and that is what all of this is about. We can talk about the particulars, but the bottom line is that we want people to have an opportunity to succeed in America like other Americans do.

Mr. KNOLLENBERG. Well, I think that is a laudable objective and I will support any move that we can make in that direction to make that happen.

Chairman GONZALEZ. The time of the gentleman has expired. We simply have to push on. We have another panel of three that still have to be recognized. And I wanted to give Mr. Klein an opportunity, if he wanted to ask a question or two.

Mr. KLEIN. Thank you very much, Mr. Chairman. I want to commend you, Mr. Chairman, and the ranking member, Mrs. Roukema, who I already gave accolades to earlier today, to renew those for her leadership in this area. I will be very, very brief and simply say that I strongly believe in the concept of rent reform. I think it is extremely important.

I know many, many people who live in public housing projects, and every single one of them wants to work. And we want to give them the opportunity to work and give them the incentive to work, and I certainly will be working and want to work with all of you to achieve that goal.

I also want to welcome the many members, many people from New Jersey who are among the New Jersey housing and development officials who are here today. And I reinforce what I said earlier, that I am there to work with all of you, as well. Thank you very much, Mr. Chairman.

Chairman GONZALEZ. Thank you, Mr. Klein.

And thank you very much, ladies and gentlemen, for your very great help, and you will receive a transcript of these hearings and there may be some questions in writing that will be submitted by several of the members. So thank you again very much.

Our next panel consists of Mr. David B. Bryson, who has long been very helpful to this committee and subcommittee. And he is the deputy director of the National Housing Law Project based here in DC; Mr. Neil Churchill, president of the National Leased Housing Association, also based here; and Ms. Christina L. Garcia, from my hometown of San Antonio, who is the vice president and director of operations, Wildwood Management Group based in San Antonio, and she is testifying on behalf of the National Multi Housing Council and the National Apartment Association, based in Washington, DC.

So thank you very much, once again, for responding to our call, and we will recognize you in the order that I introduced you.

Mr. Bryson, thank you, again, for helping us. You have been of invaluable assistance to this subcommittee.

**STATEMENT OF DAVID B. BRYSON, DEPUTY DIRECTOR,  
NATIONAL HOUSING LAW PROJECT, WASHINGTON, DC**

Mr. BRYSON. Good morning, Mr. Chairman and members of the subcommittee. I thank you for this opportunity to present our views.

I am from the National Housing Law Project and at the project we work with attorneys from all parts of the country who represent residents of public housing, tenants who are participating in the Certificate and Voucher Programs and other HUD Housing Programs.

Many of the points that I will make today are based upon consultation with those attorneys and the clients that they represent.

There are six areas which I would like to touch upon. And first, I would like to go to the topic of the day, which is rent reform. And I don't want to take up a lot of time on it. I would just like to indicate that we also have support and do support these measures to take away the disincentives that discourage public housing residents and participants in the other housing programs from making the transition from welfare to work.

We believe that that is a very important change that needs to be made. We would not like to see it confined just to the Public Housing Program. Tenants who participate in the Section 8 Program are in virtually the same circumstances. They face the same disincentives and they also need and deserve this kind of reform.

In that regard, though, there is one part of the administration's budget with which I am quite concerned. And that is a proposal in the budget to create a superpreference for applicants who are already employed. The provision was put in the budget documents as a justification for cutting back on funds for operating subsidies for public housing, as if that preference would increase the amount of rent collected. That may or may not be the case, but that is not my concern.

What I am concerned about is the fact that once you create a superpreference for applicants who are already employed, it means that everybody else will not be able to move into public housing or to get a certificate or voucher from the Section 8 Programs. The waiting lists for those programs are so long, that a preference of that nature means that other applicants who are not employed will never get in or will never be able to participate in the program.

That, to me, undermines the policies that we have all been talking about here today, which is to use the housing programs as a mechanism to enable people to make the transition from welfare to employment. If you only allow people who are already employed to participate in the housing programs, the very individuals who need this opportunity to get stable housing and then use that as a foundation for making a transition to employment will be denied that opportunity. So we strongly oppose any kind of a legislative change that would create such a superpreference.

We also believe that there are certain applicants who, for reasons beyond their control, are not employed and are not likely to be employed and they would be left out in the cold. We think it would be extremely unjust to establish a system that leaves them in the cold and thus no superpreference for working families should be created.

The rest of my comments focus primarily on the proposed improvements and consolidation of the Certificate and Voucher Programs.

And the first point in that area, which I would like to discuss is an idea which—whose time, I believe, is coming. It may not have reached here yet, but it is definitely coming. And that is an idea of changing the way that the Certificate and Voucher Programs are administered.

Currently, those programs are administered by individual housing authorities. Sometimes in any particular metropolitan area there may be tens or in extreme cases more than 100 housing authorities administering the Section 8 Program. I think that is an accident of history.

Back in 1974 when the Section 8 Certificate Program was created, there already were housing authorities. They were running the Conventional Public Housing Program. They were established on the jurisdictional lines of the local governments involved. And I think the natural thing to do was to turn the Certificate Program over to them.

In practice, the 20 years of experience with this program has indicated that that causes problems for a number of people. For the applicants, in order to secure certificates, the sophisticated applicants have to go around to each housing authority to file an application in order to increase their chances of getting this very scarce resource. The housing authorities themselves then have to process those multiple applications from the same family.

HUD has to contract with each of those individual housing authorities. There are now roughly 4,000 entities of conventional public housing and local government entities with whom HUD contracts for the administration of this program.

That creates administrative inefficiency and unjustified extra costs. But it also creates an extreme disadvantage for the applicants who are the poorest, for applicants who are homeless, who have the greatest difficulty trying to find the housing authorities which offer section 8, getting to them, filling out the application, and doing that time and time again.

It also creates—my greatest concern with this is that that system at least allows, if not encourages, racial segregation in housing to continue. Because what we have seen in the operation of the program is really somewhat like a dual school system; one system which tends to be administered by the central city housing authority in which a much greater percentage of the applicants are people of color, and another system which is administered by the housing authorities in the surrounding towns, which in contrast tends to be administered for low-income people who are white.

And certain policies have exacerbated that situation, one of which is that the housing authorities are allowed to use residency preferences. And those residency preferences enable the housing authorities in the surrounding towns to favor applicants who come from those towns who tend almost exclusively to be white people, and you end up with a situation where most of the participants in their programs are white and most of the participants in the center cities' programs are people of color. That, itself, is bad.



It is made even worse because of the way that HUD allocates the funds. Under the formulas, it is the central cities with their greater need for housing that bring the section 8 dollars into the geographical area, into the housing market. But then when HUD turns around and divides up the dollars amongst the different housing authorities within the housing markets, it doesn't do it in accordance with the needs that brought the money there in the first place. Instead other factors come into play and a disproportionate share of the dollars ends up going to the housing authorities in the surrounding towns.

In our statement, we presented some information about the possibility of changing this system; namely, a metropolitan-wide administration of the program and we would definitely like the subcommittee to seriously consider that proposal.

Another problem our clients encounter with the Section 8 Program is the difficulty in finding landlords who will participate. The figures change over time, and they change from city to city. But the turnback rate is that at least one out of four families that gets a certificate or gets a voucher cannot use it. In some cities it is much higher than that.

One of the reasons that this happens or one of the ways of overcoming it, is for the housing authorities to much more aggressively recruit landlords to participate in the program, and to provide more assistance to the families so that when they are looking for a landlord who will participate in the program, they have a much greater chance of finding one.

Let me give you one example in Massachusetts. In the late 1980's when the housing market there was very tight, the Boston Housing Authority was running the Section 8 Program and had a 50-percent turnback rate. Fifty percent of the participants who got certificates or vouchers turned them back into the housing authority unused because they could not find landlords who were participating in the program.

Simultaneously, the Welfare Department, using State funds, was using a very similar Rental Assistance Program. It aggressively recruited landlords and aggressively helped the applicants search out landlords who would participate in the program. Its rate of success was 95 percent, just the difference in operation; 50 percent for the housing authorities doing normal section 8, 95 percent for the Welfare Department using the State Rental Assistance Program. It indicates to me that if the housing authorities were given more responsibility to recruit landlords and assist tenants, and if funding were provided to do that, the program would be much more successful than it is today.

But also I would like to address another provision, which is promoted by the administration's budget. In the administration's budget documents, they indicate that they propose to reduce the fair market rent to the rent set at the 40th percentile of recent movers in the housing market area. Right now, the fair market rents for the Section 8 Program are set at the 45th percentile.

The budget proposal would be to drop that down to the 40th percentile. The effect of that, by definition, is to take another 5 percent of the units that are existing on the market away from participants in the Certificate Program. That 5 percent of the units just

would not qualify for the program, because their rents are above the 40th percentile. This is not a new proposal. It was a proposal that was made by HUD in 1982 at the direction of OMB.

In 1982, HUD proposed regulations that would change the way the fair market rents are calculated, and would reduce it to the 40th percentile. HUD, itself, at that time, when it finalized those regulations made the determination that the 40th percentile was the wrong level; that it should not be reduced that low, and instead set the fair market rents at the 45th percentile. We do not believe that it is time—we believe that it was the right decision back in 1983 when HUD made it and it shouldn't be changed now.

That particular proposal also explains why the administration, when it sent up its bill to consolidate the Certificate and Voucher Programs last year, opted for the voucher model instead of the certificate model.

You will remember that last year in H.R. 3400, the administration's proposal was to have the rents calculated under the combined program exactly as they are calculated now under the Voucher Program. Namely, the housing authority would set the payment standard, the tenant would be charged 30 percent of income, the subsidy would equal the difference between 30 percent of income and the payment standard, and if the landlord charged more, the tenant would pay that extra out of pocket.

The reason that the administration did that was that at that time it was aware that OMB was going to recommend reducing the FMR to the 40th percentile. The only way that a tenant-based assistance program would work at the 40th percentile is if the tenants are forced to pay the extra rent above the 40th percentile. And the only way to set up a scheme under which the tenants can be forced to pay that extra rent is, when consolidating certificate and vouchers, to go with the voucher model rather than the certificate model.

We believe that the solution is not to require the tenants to pay the extra, it is to keep the fair market rent at the 45th percentile, and then you can stick with the Certificate Program as far as how the tenants' contributions are calculated.

Chairman GONZALEZ. You have consumed about 15 minutes. If you need an additional 1 or 2 minutes.

Mr. BRYSON. No, I think our timing was perfect.

[The prepared statement of Mr. Bryson can be found in the appendix.]

Chairman GONZALEZ. Mr. Churchill.

#### **STATEMENT OF NEIL CHURCHILL, PRESIDENT, NATIONAL LEASED HOUSING ASSOCIATION, WASHINGTON, DC**

Mr. CHURCHILL. Good afternoon. Mr. Chairman, I am vice president of the National Capital Corp., and president of the National Leased Housing Association on whose behalf I testify today. The National Leased Housing Association for over 20 years has represented the interests of developers, owners, financiers, public housing authorities, State housing authorities, and others involved in the Section 8 Program.

Our private members own or manage a large number of section 8 new construction or substantial rehabilitation projects in this

country, while our public members administer the lion's share of the section 8 certificates and vouchers.

Mr. Chairman, NLHA would like to take this opportunity to commend you for introducing H.R. 3838. By doing so, you have sent a clear message to the administration that robbing Peter to pay Paul will not solve this Nation's housing problems.

Today, the association's testimony will be limited to a general discussion of the proposed merger of the Certificate and Voucher Programs and the expiration of project-based section 8 housing assistance payments contracts. We will be submitting comments on other provisions of H.R. 3838 in the coming weeks.

We applaud the efforts of the subcommittee to consolidate the Certificate and Voucher Program. Over the years, our members have not always agreed among themselves about what form a merged program should take, but they have always been in full accord that two separate, tenant-based programs were unnecessary.

In formulating our position on a merged program, one of the biggest challenges for NLHA members involves supporting both the 30 percent of income for rent limitation and the freedom of families to choose where they want to live. For many years we have held the view that tenants should never pay more than 30 percent of income for rent. Reluctantly, we have been forced to modify that position to address our concern over families' limited housing opportunities.

In many communities, the fair market rent is simply not reflective of the area's true rents, despite this body's efforts to encourage HUD to establish subfair market rent areas, simplify the FMR appeal process, and so forth. Not only do public housing agencies spend an inordinate amount of time and money on appealing inaccurate FMRs, families looking for apartments in this environment are forced to either relinquish the rental assistance, as the previous witness said, one in five or one in four, or stay in substandard or unaffordable housing or as an alternative, they are forced to move to a less desirable location.

One obvious solution would be to give PHA unlimited discretion to increase the subsidy cap to allow exception rents of 120 or 130 percent of FMR. However, such a move would mean fewer families would receive subsidy. Therefore, in order to maximize the families' choice for affordable rental units while attempting to limit the family's rent burden, NLHA is recommending the following compromise.

We propose that under the merged program, tenants would continue to pay 30 percent of their adjusted monthly income for rents, but instead of capping the rents at the fair market rent, we propose a cap of 110 percent of the fair market rents.

In those limited circumstances, normally only in tight rental markets where the tenants choose rents over 110 percent of the fair market rent in order to reside in a unit that best suits their needs, that family would assume the responsibility for paying any amount between the 110 percent and the 120 percent of the fair market rents.

PHAs would be required to perform rental reasonableness analyses on these rents and could approve no more than 10 percent of



annual subsidy allocation for such rents. In no event would a tenant be permitted to pay more than 45 percent of income for rent.

We have done a lot of soul searching in adopting this proposal, but feel it is the only solution absent real reform to the fair market rent methodology.

To increase the voluntary landlord participation in a merged program, we strongly support the provision in H.R. 3838 which would require the lease to contain specific terms and conditions including termination dates. We believe that written notices concerning the termination of tenancy should be required for both landlords and tenants and should be consistent with State or local ordinances that govern those requirements.

We support the provisions to eliminate the current law limitations that PHAs can only use 15 percent of their rental assistance as project-based subsidy. In addition, we would recommend that Congress require HUD to streamline its application review process.

Long processing delays have killed a number of pending projects under this program and made many developers both for-profit and nonprofit wary of participating in the program.

We would also like to state our support for the Pension Fund Demonstration Program, which was proposed in the administration's fiscal year 1995 budget.

NLHA believes that the current method of calculating the administrative fee each year based on the two-bedroom fair market rent is inappropriate, as this method fails to take into account the true cost of administration, and furthermore, every 10 years the use of new census data causes sharp unreasonable declines in fees to rebenchmarking of the fair market rents. This has little or no relation to the cost of administration and simply puts the PHA programs at risk.

We strongly support a comprehensive and detailed study of the cost of administering this Section 8 Program today. We believe that such a study is necessary to arrive at a methodology that will help determine what fees are appropriate for PHAs, be they large urban, small rural or midsized PHAs, as well as taking other pertinent facts into consideration.

We support the provision in H.R. 3838 which gives PHAs the discretion to implement a 12-month residency requirement. We do recommend, however, that the 10 percent exemption requirement be clarified for State or regional housing authorities to ensure that it applies to each separate jurisdictional allocation rather than the entire State or regional allocation.

We support the provision of additional assistance funds to PHAs who have issued a certificate-voucher to families from other jurisdictions. As you are well aware, Mr. Chairman, the Section 8 Housing Program is approaching a crossroads which may result in the loss of valuable low-income housing stock.

The first of the 20-year housing assistance payments contracts issued under the New Construction and Substantial Rehab Program, around 840,000 units, they are now beginning to expire. This will start in early 1995. Through the remainder of the decade and into the early part of the next millennium, the remaining contracts will expire.

Accordingly, Congress faces the issue of whether to renew the contracts upon expiration and, if so, how such renewals should be restructured. Although H.R. 3838 addresses the issue of expiring contracts by authorizing whatever sums may be necessary in fiscal year 1995 and 1996, it does not include any provisions for structuring the new contracts. To this end, NLHA has formulated a comprehensive proposal which we have attached to our testimony for the record.

NLHA's position represents the considered view of a broad range of project owners. Over 70 of our members have participated in an effort to formulate a proposal which attempts to preserve the section 8 housing stock while ensuring rents, which will allow the properties to meet their operating needs. NLHA's position paper is based on three premises, that as many section 8 units as possible should be preserved for low-income housing occupancy; that there be flexibility in setting rents and market conditions, taking into consideration the increased cost of operating an HUD-regulated project for low-income families; and third, that the program should be as administratively simple as possible with a minimum of HUD bureaucratic involvement.

We have discussed the NLHA proposal with your colleague, Representative Kennedy, who has expressed an interest in our concept. We have also presented this proposal to your able committee staff for their review.

Thank you for allowing us the opportunity to present our views. We look forward to working with your subcommittee on these very important issues. If time permits we will be happy to answer any questions.

[The prepared statement of Mr. Churchill can be found in the appendix.]

Chairman GONZALEZ. Thank you, Mr. Churchill.

Miss Garcia. Miss Garcia is from my hometown, very well known and active and the chairlady of the Housing Authority Commission. Thank you very much for being with us this morning.

**STATEMENT OF CHRISTINA L. GARCIA, CAPS, VICE PRESIDENT AND DIRECTOR OF OPERATIONS, WILDWOOD MANAGEMENT GROUP, SAN ANTONIO, TX, ON BEHALF OF THE NATIONAL MULTI HOUSING COUNCIL AND THE NATIONAL APARTMENT ASSOCIATION, WASHINGTON, DC**

Ms. GARCIA. Mr. Chairman, thank you for inviting me to discuss ways to improve section 8 tenant-based rental assistance.

As a lifelong resident of your hometown, I want to begin by saying I am very proud of the leadership you have long given to affordable housing in our Nation. I am enthusiastic about what we can achieve by working together in the months ahead.

My comments today will focus on tenant-based rental assistance. Improvements in that program can be the single most important thing Congress can do this year to improve housing opportunities for large numbers of needy families.

Mr. Bryson suggested that PHAs should make more of an effort to recruit new landlords to participate in section 8. Unfortunately, the Voucher-Certificate Program has serious flaws that reduce participation by owners of competitive, well-managed properties. As a

result, section 8 tends to limit a renter's housing choices to poor areas and less desirable housing.

It doesn't have to work that way. Several thoughtful changes in the tenant-based program could significantly expand the housing choice of section 8 renters. Those changes should do four things. First, make an owner's decision to participate in section 8 more like a normal business decision, not one that is extremely difficult and costly to reverse; second, enable an owner to deal with section 8 renters on the same basis as other tenants.

Third, streamline the inspection process and other section 8 requirements so that they fit in as much as possible with normal management activities. And fourth, ensure that participation in section 8 does not expose the owner to unusual losses and uncertainties in the receipt of revenues.

The changes I am about to recommend would not cost money. They are not just in the owners' interest. They would also be in the interest of renters, PHAs, and the Federal Government.

I am here today on behalf of the National Multi Housing Council and the National Apartment Association, two important organizations that work together for an economic environment and public policies that support quality, accessible, and affordable housing. Members of these two associations own and manage a large portion of the Nation's 24 million rental housing units.

As the economy recovers and rental markets tighten, flaws in the Voucher and Certificate Program will become even clearer. I have talked to many experienced professionals in the industry about this issue and virtually everyone agrees that a private owner can be expected to participate in section 8 as it exists now only if the owner has no economic alternative.

I believe we can look at recent events in Los Angeles and see what could be achieved by removing some of the program barriers that make section 8 unacceptable to many owners. Right after the earthquake HUD announced that 18,000 certificates would be available for people who were left homeless after the disaster.

When HUD discovered that apartment owners were refusing to accept certificates, the Department's initial reaction was to think the problem was just plain, old-fashioned discrimination. But when Secretary Cisneros called a meeting of the owners, hundreds more showed up than were expected. Many owners pointed out problems they had with section 8. Some misunderstandings were cleared up, but some very real problems with the programs were identified.

The Secretary listened, and he made some very important changes with respect to the earthquake certificates. Owners can now terminate the tenancy of disruptive residents in the same way as they can for other tenants. Leases can be on a short-term basis as is the case with other renters, so the owners would not be locked into an endless contract.

Through conversations with people in Los Angeles, I understand that owners quickly responded to those changes with a big increase in willingness to accept the earthquake certificates. About 800 new owners quickly agreed to accept certificates under the new conditions.

I understand Federal, State, and local officials are very pleased with this response. We can also expect a similar change in owner



response to the whole Tenant-based Assistance Program if similar reforms are made in the section 8 statute and regulations.

To get the most useful suggestions on the table, the National Multi Housing Council and the National Apartment Association asked the nationally recognized research firm, Abt Associates, to prepare a report with their recommendations for making section 8 more acceptable to property owners without sacrificing the program's public purpose.

I am pleased to release the Abt study report here this morning, and I ask that a copy of this report be included in the record behind my written statement.

Not all improvements to the tenant-based assistance require legislation, but I believe several key legislative changes are necessary to provide a workable statutory framework for the program. I believe seven specific changes in the statute are needed.

First, eliminate the 90-day notice to HUD for termination of tenant-based contracts. Current law requires an owner to provide HUD and the tenant with written 90-day notice prior to terminating a tenant-based contract. That requirement makes sense for project-based assistance, but not for tenant-based assistance. HUD cannot be expected to intervene separately in private market relationships among tenants, PHAs. I understand the administration reportedly supports this change.

Second, Congress should allow the use of normal leases under section 8. A PHA should be able to approve an initial lease for the term of less than 1 year if the PHA determines that the shorter lease term will improve the tenant's housing opportunities. An owner should be able to use a standard lease with the same terms and conditions that apply generally to other tenants.

The Secretary could require an addendum that includes provisions required by the section 8 statute. An owner should be able to terminate the tenancy at the end of the lease in the same manner as would apply to other nonsection 8 tenants in the property. Any activity that threatens other tenants' health, safety, or right to peaceful enjoyment of the property should be considered good cause for terminating the tenancy.

A big problem is that regulations require the lease to continue until the owner institutes court action. This endless lease requirement is alien to the normal market practice. This requirement makes it more difficult and costly for an owner to correct a mistake in selecting a section 8 applicant than is the case with other applicants.

Although different State and local laws apply, owners usually deal with chronically unacceptable behavior by not renewing a tenant's lease when it expires. Eviction procedures are usually reserved for extreme cases because they are costly and very disruptive.

Third, Congress should streamline inspections for housing quality. Section 8 applicants should be allowed to move in and occupy a unit in good housing generally on the same basis as other residents. A public housing agency should be able to streamline the property inspections, especially in properties that maintain a record of high quality.

For example, instead of requiring a unit-by-unit inspection, the PHA could inspect a property as a whole once a year using appropriate random sampling methods approved by the Secretary. If the agency certifies that this building can be expected to meet section 8 standards, applicants could then move in, as with any other applicants, without waiting for each individual unit to be inspected.

In addition, the amendment should permit inspections to be done by another agency of State or local government according to standards that meet or exceed housing quality standards. A growing number of localities already require regular inspections of rental housing.

Fourth, Congress should repeal the "take one, take all" provision. Under section (8)t of the current law, if the owner accepts a section 8 applicant, the owner is legally required to accept section 8 applicants in all of the owner's qualified units. This provision, which was intended to expand housing opportunities for section 8 applicants, has had the opposite effect of dissuading many owners from accepting any section 8 applicants.

Congress should repeal section 8(t), and I understand the administration supports this repeal.

Fifth, Congress should direct the Secretary of HUD to establish procedural guidelines and performance standards to make property inspections and other section 8 activities more in keeping with the efficient operation of the private rental market. Such guidelines and standards should be flexible and recognize differences among local laws and PHAs.

Sixth, Congress should make it clear amounts due an owner should be paid in a timely manner. Any late payment penalties should be made in accordance with generally accepted practices that apply to nonsection 8 residents. Moreover, payments to an owner shouldn't be abated as a result of damage or other conditions caused by the tenant or because of delays by the PHA.

And seventh, Congress should make sure that the Secretary has authority to implement payment methods that will foster efficient program administration and improve the housing opportunities of section 8 renters. Specific changes in payment practices should not be enacted in the law, but the Secretary should have the flexibility to explore ways to do things better.

Mr. Chairman, as you continue your fight for better housing, I know you have an even more difficult task this year than ever before. I believe the program reforms I am recommending are made especially useful in the light of budgetary and other constraints on Federal policy.

Mr. Chairman and members of the subcommittee, I urge you to recognize that private sector rental housing owners can be your best partners in expanding affordable opportunities for low-income families at the least cost. The changes I recommend would provide better housing not by spending more money. It would do so by working with housing market forces rather than against them. These changes would help government and the private sector join forces in the public interest.

Thank you for inviting me to be here this morning. I look forward to working with you and the subcommittee to achieve a

tenant-based assistance program that opens more opportunities for low-income families.

[The prepared statement of Ms. Garcia can be found in the appendix.]

Chairman GONZALEZ. Thank you, Ms. Garcia.

I wanted to thank you very much for the study that you appended to your statement, the Abt Report and that final report makes a number of recommendations in order to make this Section 8 Program more amenable or acceptable in the private rental market.

Do you have any particular priority as to these recommendations? Which is the one that you think is of greater importance?

Ms. GARCIA. Mr. Chairman, that would be very difficult. If you read the Abt Report closely, there are many items that the owners participating in the focus groups found were barriers. But the seven items I mentioned are the key ones that require legislative action. They are outstanding points owners cited as reasons that they may not want to participate in section 8. These were the seven most important obstacles or barriers to remove to increase owner participation.

Chairman GONZALEZ. In 1981, the then Director of the Office of Management and Budget appeared before our subcommittee. The new administration had just taken over and I had just become chairman of the subcommittee. And I invited him. I had gotten to know him. In fact, we tangled a couple of times on the House floor.

He had been the Congressman from Michigan. I invited him because when the newly elected President began to form his Cabinet and so forth, it began to leak out, by December 1980, about what became known as the "black book." That was going to be the recommendations for what the President called the ERP, the Economic Recovery Plan, he was going to develop. So then he appointed Samuel Pierce as the Secretary of HUD. And since I had met Mr. Pierce in 19—oh, I am sure it was the early 1970's when we had the Lockheed bailouts, and the New York Central Railroad bailouts.

In fact, it was 1971, because President Nixon appointed John Connolly Secretary of the Treasury and he immediately came up here and asked me to arrange a meeting with the then chairman from Texas, Mr. Patman, and we did. And Secretary Connolly hired a team of assistants and one of those was this lawyer from New York known as Sam Pierce. And they are the ones that came over.

I was involved in every one of the so-called bailouts beginning with the Penn Central and ending up with the New York City later.

But I met him and so therefore I was the first one that he met with as soon as he was confirmed by the Senate and it coincided with that first week in March that Mr. Stockman, the newly appointed Director of OMB, appeared and he said I am here against the recommendation of my staff that said at no time should a Budget Director appear before a nonbudgetary committee. And so he did. And it was a very, very significant hearing for two reasons.

It was obvious that by that time what had been a rumor and a leak, the story about the "black book" became a confirmation and Mr. Stockman told us—it is in the record—that their basic fun-



damental principle they were starting from was that there was an excess, and had been an excess allocation of housing credit in the national economy. And then he proceeded to tell us what the administration wanted and what they wanted, representing 80 percent of the cuts, were in the area or jurisdiction of the subcommittee.

So he had not spoken too long before he revealed that he didn't have much knowledge about housing finance. I told him, if we do what you are saying here by July 1 the Secretary will issue a mandate that every FHA office will have a telegram saying you can't commit one dollar's worth of insurance. And he said, no, that is not it at all. We want to phase out what we call subsidized FHA. And I said, no.

What happened was they pointed their computer at that \$31 billion and acted as if it was defense accounting or finance, and didn't realize that there was a 30-year stretch on it. So I realized then that there was going to be a lot of vulnerability. And that is exactly, I am sorry to say, what happened.

Then right after that, in fact, I think it was that morning that Mr. Pierce was confirmed and he called and I said I will go and congratulate you. And he said, no, he wanted to come to my office, and I asked him, I said, well, Mr. Secretary, will you have equal access to the President as OMB? And he said, no problem. He said we are all committed to one thing, and that is to the Economic Recovery Plan [ERP]. So I said, what about housing? And he said, well, we are going to see.

Sure enough, they decided that, of course, the housing allocations would have to be reduced. So they created a committee. In fact, they had Ms. Hills who had been a former Secretary of HUD and more recently the trade negotiator. When I found out about it I tried to get hold of Mr. Pierce again, but I could not make the connection because it was clear that he said he would not bring a recommendation to the committee until this commission, which was mandated to finish in 6 months, gave us a recommendation.

But when I saw the parameters laid out for the commission, I said, whatever you do, there has to be something that is not a program involving the traditional entitlement, anything but entitlement. They came out with the recommendation that to meet the housing needs, you would have vouchers. I have had a dim view of that because it was obvious that the housing goals that had been mandated in a Presidential report in one of the early 1970 acts—the construction of not less than 2 million in order to meet the minimal needs of the country was never going to be met.

When I said, what are you going to do to supply the needs of housing starts? Well, the rest is history. What you have had since then, first certificates and then vouchers do not provide housing. They provide existing housing. And what is the amount of money you are going to give to the voucher beneficiary that is going to enable him to go to a safe, decent neighborhood? And they never answered that question, so I have never had any real backing for what has turned out to be the Voucher and the Certificate Program.

And the results have been dramatic. You have homelessness such as you never had since the Depression. And the reasons, to me, are

quite obvious, and I saw it then in 1981. And so I don't have much enthusiasm.

Whatever you do, the private owner—it is like the banker. The reason you created all these institutions like S&Ls and FHA in the 1930's was because the bankers were not allowed to allocate credit for either construction at affordable costs of housing or the acquisition of housing. Bankers will be bankers and private owners will be private owners and I have nothing against that, but when you try to confuse the two, then you are going to have problems. However, I think that we have the Section 8 Program, it is a reality. And I welcome the recommendations.

But it is not a substitute for public housing. And it never will be. And public housing, regardless of what everyone wants to call it, has been the only program that our country has devised for the very poor.

Now, why didn't private enterprise do it? And the reason is that unless they are 100 percent subsidized, they could not in a for-profit situation. There is nothing wrong with that if that is what you want—but if you are going to meet the goal of trying to reach every American family from the very, very poor on up, well, then, the Public Housing Program is the only program, no matter what anybody says.

Since 1981, you have had a loss of close to 50 percent of the housing starts available to the very poor. A loss. And, therefore, that is the dimensions.

One final question I was going to ask. You heard Mr. Bryson's testimony. What comment do you have to his observations that the Voucher Program and the other would tend to preserve the segregatory reality of life out there?

Ms. GARCIA. Well, I would respond by referring back to the seven points that we made. I think these improvements all work together. And they are all needed because the reality now is that owners view barriers to participating in this program. They turn to section 8 when they have economic difficulties with their properties, when they have no other alternatives.

The majority of their property becomes section 8 recipients, and this tends to do what we just discussed; concentrate the section 8 recipients all in one area. Some of the points that we are making we hope would allow families to go to other neighborhoods in other areas and not be congregated together.

We think that with these barriers removed, owners would be willing to accept section 8 recipients into their properties. Renters would therefore have better choices than only properties that have economic difficulties.

Chairman GONZALEZ. Well, Mr. Bryson also observed that with the tremendous backlog of demand, for instance, in San Antonio, you then have a formidable demand.

Ms. GARCIA. Yes, sir.

Chairman GONZALEZ. And that is not counting those individuals that they have taken off the list after a certain period of time.

Mr. Flores tells me they do that. But if you total up the demand for housing in the city of San Antonio, it exceeds—that is of those actually on lists—over 15,000.

Ms. GARCIA. That is right.

Chairman GONZALEZ. That is for public housing. When the Secretary appeared before us when we kicked off these hearings, I said, well, the trouble is President Clinton's budget is very little different from President Bush's budget.

In addition, the various schemes they devised were what I called robbing Peter—or borrowing from Peter to loan to Paul, but actually robbing from Peter to pay Paul, but ending up in robbing both Peter and Paul and that is what I think Mr. Bryson was trying to bring out.

And, Mr. Bryson, the thing that I have always been impressed with the Housing Law Project is that it has been very much in the cutting edge. What is your view as to the most significant problems facing the low incomes currently in the Section 8 Programs?

Mr. BRYSON. Well, the most significant problem is the inadequacy of the funding for both public housing and the Section 8 Programs. The fact that there are 5 million families who need housing assistance and don't get it because Congress has not appropriated enough money to serve everybody who is in need, I see that as the most fundamental problem.

Beyond that, I am concerned about the point which I made earlier, the need for a more rational administration which is region-wide or metropolitan-wide so that a lot of the inefficiencies could be eliminated.

Chairman GONZALEZ. Yes, that was very good.

Mr. Churchill.

Mr. CHURCHILL. Mr. Chairman, well, I think flexibility is the major problem of section 8. By concept, section 8 is the one subsidy program that by design can work anywhere. You have a vehicle that says in San Antonio on this street corner, here is what we need to do. In New York City we need to do this.

However, administratively, we have created layers and layers and we have taken the decision away from the local communities, what is appropriate. What do we need to do here? What is our problem? And we keep putting all kinds of structures saying you have got to do X, you have got to do Y. X may work well on paper, but it may not mean a hill of beans in San Antonio, Texas.

Chairman GONZALEZ. I understand.

Mr. CHURCHILL. We need to have the ability for those, whoever they are, regional, local housing authorities that are responsible to make that determination of whether it is more advantageous here to have 15,000 people served in a certain way, and run the program or maybe we know we can't do that because we actually need to use a little bit more money, whether it is project-based. Maybe we have got a lot of units that are substandard and we need the owners to go spend a few thousand dollars to get rid of lead-based paint, asbestos.

They are not going to do it for a certificate. We have made this program so complex that they don't work. We need to quit trying to micromanage at this level, Congress to HUD, HUD to the local communities and get back to the basic thing of saying let's make the programs work.

Chairman GONZALEZ. I regret to say that we have about 2 minutes to go record the vote, but I will submit a question so that you may continue to enlarge on this. I am very much interested in



these practical aspects that you have to face if you are going to have private ownership.

And also, Mr. Bryson, I want to thank you profoundly. I want to thank the staff on both sides for the tremendous work that they have done with very limited resources. Thank you again very much and the subcommittee will stand adjourned until further call of the Chair.

[Whereupon, at 12:48 p.m., the hearing was adjourned, subject to the call of the Chair.]



## APPENDIX

February 24, 1994



Opening Statement  
Chairman Henry B. Gonzalez  
Hearing on Housing and Community Development Issues - 1994  
February 24, 1994

Today we welcome the Secretary of the Department of Housing and Urban Development, Richard Gentry, representing the National Association of Housing and Redevelopment Officials and our good friend Moises Loza of the Housing Assistance Council to begin the discussions concerning the housing and community development reauthorization legislation for the fiscal years 1995 and 1996. I introduced H.R. 3838, the Housing and Community Development Act of 1994, with 20 members of the Committee as original co-sponsors on February 10. This legislation includes the regular reauthorizations required and many of the initiatives that were a part of the bill you proposed last year, Mr. Secretary. It is my hope that this bill and this hearing will open the discussions for the legislative season ahead and spark discussion from all quarters interested in housing and community development.

The Subcommittee will schedule a series of hearings this March and April addressing the major issues and programs included in the bill so that we may build a record, mark up and report the bill and bring this important legislation to the House floor as soon as possible.

This bill includes the authorizations required for the public and Indian housing programs, the assisted housing programs, the FHA insurance programs, the Community Development Block Grant program, the HOME Investment Partnerships program, the preservation program, the supportive housing programs, and

regulatory programs; and it includes authorizations for the rural housing programs administered by the Farmers Home Administration and for the programs for the homeless under the Stewart B. McKinney Act.

The bill also contains initiatives that I have championed including a revision of the Emergency Homeowners Relief Act to provide assistance to homeowners facing foreclosure and loss of their homes, and a merger and rewrite of the section 8 certificate and voucher programs. The merger which I initially proposed in 1992 will mean better protection for low income families and relief from administrative burdens for housing authorities.

I also have provided several rural housing initiatives, in addition to technical and clarifying changes, including a streamlined refinancing authority for rental housing, and a technical assistance and capacity building program for Native American and Native Alaskan tribes and members of tribes who have been underserved by FmHA housing programs. We are particularly interested in Mr. Loza's comments about these provisions.

At the same time, the Housing and Community Development Act of 1994 includes many of the initiatives and technical changes that were a part of the Administration's 1993 legislative package and also advocated by members of NAHRO and other housing interest groups. It incorporates most notably restructured and simplified reforms of the multifamily property disposition program; the Community Partnerships Against Crime or COMPAC program; a new economic grant program as part of the section 108 loan guarantee

program; and provisions which will foster mixed income public housing communities.

The Administration has made major strides in reversing federal policy and priorities that produced little or no sustained domestic strategy or investment in affordable housing or rebuilding our nation's cities and towns. Yet more federal cooperation and participation is critical to maintaining the momentum.

And the prospects for increased or even level funding are quite bleak. So the energy that the Administration, members of NAHRO, and rural housing advocates and agencies have shown in doing more with less is both critical and welcome.

As this hearing begins the regular legislative process for the reauthorization bill, we are particularly interested in your initial comments about the proposals included in H.R. 3838, in your priorities from the 1993 Administration legislation, and your initial ideas about 1994 proposals and legislation.

Finally, I would be remiss if I did not commend you, Mr. Secretary, and your Department for your speedy and dedicated efforts to provide critically needed assistance to communities and families devastated by the California earthquake. The response has been unprecedented.

I look forward to the testimony.



(2/24/94)

Opening Remarks of Rep. Marge Roukema  
 HOUSING SUBCOMMITTEE  
 SECRETARY CISNEROS

Mr. Secretary, I want to welcome you here today before the Housing Subcommittee as we begin the process of reauthorizing our federal housing programs for the next two fiscal years.

We look forward to receiving your views on housing issues today and the direction you intend to lead HUD over the next three years.

However, Mr. Chairman, before I begin my remarks to the Secretary, I wanted to commend you for introducing H.R. 3838, your version of housing authorization. In an effort to continue the bi-partisan spirit in which we have pursued housing policy in this Subcommittee over the past few years, I was pleased to join you as a sponsor of that legislation.

As you may know, I have also introduced several housing related bills dealing with improvements to the HOME program, a limited block grant for McKinney Homeless Assistance, and public housing reform. Many of the provisions of my bills have been requested by the Administration and have been incorporated into the Chairman's bill.

I hope the Chairman and the Secretary will give serious consideration to the other provisions I have introduced.

Mr. Chairman, we have a dilemma. Our Subcommittee has two housing budgets before it, one submitted by the Secretary and H.R. 3838.

On the one hand, while it has problems, the HUD budget does more realistically reflect the fiscal realities of the budget deficit which we face.

On the other hand, the funding levels in H.R. 3838, while larger overall, better reflect the necessary spending balance we need to maintain among all of our housing programs.

Republican Members of this Subcommittee share with the Administration and with the Chairman a common vision for the well being of our citizens, our communities and our neighborhoods. We believe that these goals can best be achieved through a balanced housing budget which addresses our most pressing housing needs in a reasonable and fiscally responsible manner.

We will have to work very diligently in the months ahead to reconcile these two budget requests.

Now Mr. Secretary, this year, you are requesting a budget which represents an increase of almost \$1 billion over the appropriated levels for Fiscal Year 1994.

However, your budget actually reduces the funding levels for many of the most critical housing programs.

It is with regret, therefore, that I find that your budget for Fiscal year 1995 does not achieve that important balance among our programs. Reductions in funding for programs such as the HOME Investment

Partnership; public housing development, modernization and operating subsidy, and Section 202 housing for the elderly are totally unacceptable.

The HOME Investment Partnership was, in my opinion, one of the most important new programs to emerge from our Committee. As an early and strong advocate of more flexibility at the local level to meet housing needs, I firmly believe this program, if properly implemented and adequately funded, will go a long way in meeting our long-term housing needs. But one of the most critical elements of that program is the guarantee that a steady flow of funds will be provided by the Federal government. Participants in HOME must have an adequate, reliable, and steady stream of funding so that their long-range housing strategies can be met with confidence and minimal adjustment.

In the case of HOME, I can not accept the simplistic argument that because there are enough funds in the pipeline the program can be reduced this year. Last year you made a personal commitment to this Committee to do all you could to free up that pipeline and continue to adequately fund that program.

With respect to the devastating reduction in funds for housing for the elderly, I find the budget request for the Section 202 inexcusable.

According to some reports, there are over 250,000 low-income older persons, many frail elderly, on waiting lists for affordable housing units. The Section 202 program is an important component of our national housing policy and has served our elderly populations quite well.

What is most disconcerting about this budget is its justification. It is totally unacceptable to suggest that cuts in this program can somehow be alleviated by the authority to allow PHAs to designate public housing projects as elderly-only.

That may be an option in certain cities where there is a large PHA and if you were requesting more funds for public housing but in my Congressional district where there are a lot of elderly persons looking for housing and no large PHA, this option simply does not apply.

With respect to the budget request for public housing, I am equally disappointed.

Last year, you made the improvement of public housing your second top priority for the Department.

Last November you traveled to Newark and visited a dilapidated project known as Hayes Homes. You stated that that visit was one of the lowest days of your 11 months on the job and that "folks ought not have to live in conditions like those that exist at Hayes Homes".

Yet, Mr. Secretary, this year's budget reduces every public housing account from operating subsidy to modernization. What do you say to the residents of Hayes Homes?

Finally, what is most troubling about this budget, Mr. Secretary, is that there appears to be a confused, disconnected and muddled housing strategy emerging from this Administration.

For instance, no one can deny the continuing problem with homelessness in this nation. And no one can contest your commitment to addressing that problem. But a \$780 million increase seems to be excessive.

The largest concentrations of homeless families appears to be in our urban centers. Coincidentally, this is also where we are experiencing the largest concentration of deteriorating or vacant public housing and housing controlled by HUD under foreclosure. Since a large portion of our homeless families simply need a stable and affordable roof over their heads, it makes little sense to increase homeless assistance at the same time the budgets for HOME, public housing development, modernization and severely distressed housing are being reduced.

These are the very programs that can produce the affordable housing units needed for the homeless. Vouchers are helpful but not always useable in some markets.

Similarly, the Administration recently announced a new anti-crime initiative for public housing. We all know that a large portion of that criminal activity takes place in our dilapidated and predominantly vacant high-rise public housing projects.

While we applaud your new initiative, perhaps the single most effective way to attack this crime would be to significantly change the venue. That is to get rid of the high rise projects which breed this kind of activity and replace these projects with new developments that reflect a commitment to renew the vibrancy and vitality of our neighborhoods and communities.

To accomplish this, you cannot cut the very budgets that would help produce those new units.

Mr. Secretary, as you begin your second year at HUD let me say our problems are still formidable but our task is not dismaying. There is a crying need across the land for decent, affordable housing, and, together, we must answer the call. I appreciate the fact that your task is not easy given the constraints of the budget deficit. Competition for scarce funds may place your priorities in conflict with those of the Congress but this simply requires that all federal programs find innovative ways to spend their limited resources more efficiently and on a more timely basis.

Our priorities in these times of tight budgets must be to provide the best return for the resources available. They must not pit one housing program against another. And, clearly they must keep HUD in the forefront of providing affordable housing not moving HUD toward a more service oriented agency.

Programs such as HOME, Section 202 and public housing, which may require ongoing management improvements, are nevertheless, important housing programs which serve to meet specific populations in need and have the strong, bi-partisan support of our Committee.

Over the past four years, our Committee has worked very carefully to try and find that right balance which brings us the best return. Fundamental changes in policy direction or funding levels must be taken



seriously and must be fully debated.

While I believe your budget request needs a lot of work, I look forward to working with you, as we move toward the reauthorization of our housing programs for Fiscal 1995 and 1996.

**CAROLYN B. MALONEY**  
14TH DISTRICT, NEW YORK  
COMMITTEE ON BANKING, FINANCE  
AND URBAN AFFAIRS

COMMITTEE ON  
GOVERNMENT OPERATIONS

CONGRESSIONAL CAUCUS  
ON WOMEN'S ISSUES  
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**OPENING STATEMENT**

**Subcommittee on Housing & Community Development**

**Hearing on HR 3838**  
**Housing & Community Development Act of 1994**

Thank you Mr. Chairman. Today's hearing marks an important milestone on the reauthorization of all of the Federal housing and community development programs.

In many ways, HR 3838 should be considered the most important piece of legislation that Congress will consider this year, even when compared to health care reform and welfare reform.

Having a permanent place to live is the fundamental cornerstone for reform of either healthcare or welfare. It is not reasonable to expect a family to get off welfare if they have nowhere to live. Nor is it reasonable to expect homeless people to be able to stay in in top physical health.

It is a national disgrace that tens of thousands of people, many of them children, go homeless in the wealthiest nation on Earth. And we must take concrete steps to improve the environment surrounding so many of our public housing projects, including the creation of parks in vacant lots that are now havens for drug dealers and garbage.

But unfortunately, these facts are byproducts of years of budget decisions that have left the Federal Government with a HUD budget that is only one-eighth the size of our military budget.

Almost exactly one year ago, Secretary Cisneros, you took office amidst great expectations.

For the first time in twelve years, an administration was in place dedicated to improving the role of the Federal Government in creating permanent housing opportunities for our citizens.

However, the enormous announced budget cuts at HUD this year -- especially in the Section 202 Senior Citizen housing program and in the public housing rehabilitation funds -- one cannot help but question the commitment to that laudable goal.

So the question arises, because of the severity of these cuts, if the Administration has lost faith in these programs, and if it has, we must hear of those concerns before this Subcommittee proceeds with the reauthorization of these very same programs.

While I applaud the modest increase in funding for programs for the homeless, it should be noted that the failure to create new housing, immediately and in the future, will only exacerbate the problems of homelessness.



LUIS V. GUTIERREZ

4TH DISTRICT, ILLINOIS

COMMITTEE ON BANKING  
FINANCE AND URBAN AFFAIRS

SUBCOMMITTEES

HOUSING AND COMMUNITY DEVELOPMENT  
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VETERANS' AFFAIRS

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**OPENING STATEMENT**  
**CONGRESSMAN LUIS V. GUTIERREZ**  
**SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT**  
**FEBRUARY 24, 1994**

MR. CHAIRMAN, I AM GLAD THAT WE ARE FINALLY ABLE TO HOLD THIS HEARING. I WANT TO WELCOME SECRETARY CISNEROS AND THANK HIM FOR HIS OPENNESS AND WILLINGNESS TO APPEAR HERE TODAY. MANY OF US, ESPECIALLY THOSE MEMBERS FROM LARGE URBAN AREAS, AWAIT HUD'S BUDGET BOTH WITH ANTICIPATION AND TREPIDATION. IN THE PAST, WE HAVE EXPECTED THE WORST AND PREPARED FOR BATTLE. HOWEVER, THIS BUDGET APPEARS TO BE GOOD NEWS FOR THE MOST PART. AS ONE OF THE FEW AGENCIES THAT ACTUALLY EXPERIENCED AN INCREASE, HUD APPEARS TO HAVE A UNIQUE AND REAL OPPORTUNITY TO PROMOTE PROGRAMS THAT ARE BOTH PRODUCTIVE AND CREATIVE.

I ALSO WANT TO COMMEND THE CHAIRMAN FOR BRINGING H.R. 3838 TO THE TABLE IN SUCH A TIMELY MANNER. I AM AN ORIGINAL CO-SPONSOR AND WHOLEHEARTEDLY SUPPORT THE MANY PROVISIONS OF THIS BILL. I STRONGLY BELIEVE THE PROVISION ALLOWING NEWLY EMPLOYED PUBLIC HOUSING RESIDENTS TO RETAIN THEIR CURRENT RENT PAYMENTS FOR EIGHTEEN MONTHS AFTER EMPLOYMENT WILL HELP THESE INDIVIDUALS AND FAMILIES TO STABILIZE THEIR LIVES BEFORE FACING ADDED PRESSURES. I AM ALSO ENCOURAGED BY THE RENEWED FUNDING FOR THE NATIONAL HOMEOWNERSHIP TRUST. AS I HAVE SAID OVER AND OVER IN THIS COMMITTEE, HOMEOWNERSHIP IS CRITICAL TO THE PROSPERITY AND SECURITY OF THE CITIZENS OF OUR CITIES, TOWNS AND RURAL AREAS. IT GIVES PEOPLE A STAKE IN THEIR NEIGHBORHOOD AND A PRIDE IN THEIR COMMUNITY NOT EVIDENT IN RENTAL AREAS.

SECRETARY CISNEROS HAS MADE MAJOR STEPS IN HELPING THE HOMELESS AND I AM INTERESTED IN THE PHILOSOPHY AND DETAILS BEHIND THE "CONTINUUM OF CARE" PROPOSAL. I AM TROUBLED BY THE CUTS MADE IN THE PUBLIC HOUSING BUDGET. AS A REPRESENTATIVE OF A CITY WHOSE PUBLIC HOUSING TROUBLES ARE INFAMOUS, I BELIEVE THE CUT IN OPERATING SUBSIDIES AND MODERNIZATION AND SEVERELY DISTRESSED PUBLIC HOUSING FUNDS WILL BE DETRIMENTAL TO THE PROGRESS MADE THUS FAR.

AGAIN, I APPRECIATE THE SECRETARY'S APPEARANCE AND LOOK FORWARD TO WORKING WITH THE CHAIRMAN AND THE SECRETARY IN THE MONTHS AHEAD.

THANK YOU, MR. CHAIRMAN.

**Statement  
by  
The Honorable Lucille Roybal-Allard**

**Committee on Banking, Finance and Urban Affairs  
Subcommittee on Housing and Community Development**

**February 24, 1994**

Thank you, Mr. Chairman.

It is a pleasure to be here, today, and to welcome Secretary Cisneros to the subcommittee. It is also a pleasure to welcome Mr. Rick Gentry from the National Association of Housing and Redevelopment Officials and Mr. Moises Loza from the Housing Assistance Council. I look forward to your testimony.

As we begin work on legislation to reauthorize this nation's federal housing agencies and programs, we must not forget the lives of the people that lie behind the statistics and the politics of the legislative process.

The policy considerations are complex. The needs are real. Individuals, families, and communities are looking to this committee and to the federal government for leadership.

Secretary Cisneros is to be commended for providing the leadership that is changing the Department of Housing and Urban Development into a responsive and effective agency.

Chairman Gonzalez, as well, for many, many years, has provided the inspiration and the leadership that has made this nation's housing policy meaningful and effective.

I look forward to working with the Chairman, with the Secretary, and with members of this committee to help solve this nation's housing problems. If we work together, we can provide the decent, safe and affordable housing that the residents of this country need and deserve.

Thank you.

**STATEMENT BEFORE THE  
HOUSE BANKING COMMITTEE  
SUBCOMMITTEE ON  
HOUSING AND COMMUNITY DEVELOPMENT**

**Washington, D.C.  
February 24, 1994**



**by**

**SECRETARY HENRY G. CISNEROS**



Mr. Chairman and Members of the Committee, thank you for holding this hearing today and for your strong support for HUD's goals, priorities, and legislative initiatives.

We owe you a debt of gratitude, Mr. Chairman, for your many years of leadership as a strong advocate for affordable housing and better communities. You have been a vital force in this crusade throughout your lifetime of achievement. We especially appreciate your work in the past decade leading the fight to preserve HUD's budget in the face of proposed cutbacks, and we are also grateful for your continued leadership in shaping today's national agenda for housing and community development policy by guiding key legislation through Congress, including the Stewart B. McKinney Homeless Assistance Act, the Cranston-Gonzalez National Affordable Housing Act, and the Housing and Community Development Act of 1992. People that care about better communities and housing are well served by your Chairmanship of both the House Committee on Banking, Finance and Urban Affairs and its Subcommittee on Housing and Community Development.

We are very pleased to work so closely with you, Chairman Gonzalez, and with the Members of your Committee, in our efforts to revitalize HUD, ensure fair and affordable housing for all, and rebuild America's communities. I am delighted to be here today, and I want to thank you for this opportunity to discuss HUD's legislative priorities. We appreciate your introduction of reauthorizing legislation in the form of H.R. 3838, the Housing and Community Development Act of 1994. As you know, the Department is in the process of preparing its own 1994 bill, which will be introduced by the President within the next two months.

#### THE HUD DEMONSTRATION ACT OF 1993

Mr. Chairman, I would like to begin by briefly discussing the legislative priorities that were of vital importance to us last year. We appreciate all of your help in moving those priorities.

I want to thank you for your leadership in guiding the HUD Demonstration Act of 1993 into enactment.

- Thanks to your assistance, Congress authorized and appropriated \$100 million for the new Community Investment Demonstration Program creating public-private partnerships with pension funds, leveraging HUD subsidies to provide incentives for more than a billion dollars of new investment producing thousands of affordable housing units.
- Congress authorized and appropriated \$171 million for our expanded efforts to promote housing choice by adding more

than 4,300 families to the Moving To Opportunity program, providing rental assistance and counseling to help eligible low-income families move from high poverty areas to communities where poverty is less concentrated.

- Congress authorized and appropriated \$100 million for our new Innovative Homeless Fund to encourage cities to build new partnerships and develop creative strategies for dealing with the crisis of homelessness. Our first grant of \$20 million is for the D.C. Initiative. We are now working with the District of Columbia city government, local foundations, business leaders, nonprofit service providers, homeless advocates, and neighborhood organizations, designing and implementing comprehensive continuum of care solutions to meet the housing and service needs of homeless persons. Several weeks ago we designated the City of Los Angeles for the second of our citywide grants for Innovative Homeless programs. We also recently provided \$25 million in grants to innovative service providers around the country for innovative activities to help save lives during the bitter winter cold.
- Finally, Congress authorized and appropriated \$20 million for our new partnership with the National Community Development Initiative, to build the organizational and program capacity of community development corporations to produce and manage affordable housing and generate jobs and economic development in low-income neighborhoods. A consortium of private foundations and one large corporation are matching HUD dollars on a three-for-one basis, leveraging an additional \$60 million from the private sector to supplement the \$20 million from the Department.

#### PREVIEW OF 1994 REAUTHORIZATION PROPOSALS

And now, Mr. Chairman, I am pleased to present you the general outlines of our 1994 reauthorization legislation as a complement to your own H.R. 3838. Most of these legislative initiatives follow the new HUD initiatives listed in the President's Budget for FY 1995. Currently we are drafting the legislative details. After obtaining the views of other agencies and final approval from the Office of Management and Budget, we will provide complete information about the legislative package. For now I can express the broad themes, which follow the six key program and management priorities we first identified in our 1993 document, "Creating Communities of Opportunity." These priorities are:

- Reducing Homelessness
- Turning Around Public Housing
- Expanding Housing Production and Preserving the Supply of

#### Affordable Housing

- Ensuring Fair Housing for All Americans
- Helping Communities Empower Themselves
- Bringing Excellence to Management

The unifying framework and underlying philosophy for these six priorities is our new broad-based initiative that we are calling Transitions. This approach involves using Federal housing and community development programs to enable people to move up a ladder of opportunity, to make dynamic progress in their lives and reach for something better. Specifically, the purpose is to encourage four vital transitions for individuals, families, and neighborhoods:

- From welfare dependence to economic independence
- From renter to homeowner
- From distressed community to thriving community
- From segregated community to open community

The goal of Transitions is to help families and communities begin realizing their full potential. It will require a reinvention of some of HUD's basic programs--for homeless services to facilitate the transition to permanent housing and independent living; for public housing developments to become laboratories for family growth, employment, and stability; and for low-income families to live in dignity and respect through housing certificates that become genuine instruments of choice, not only for decent, affordable housing but also to better schools and more job opportunities.

A centerpiece of this initiative is homeownership. A recent survey found that lower-income and minority families valued homeownership more than people with higher incomes. Many people have the will but lack the opportunities. Project Transition will focus technical assistance and counseling, breaking down discriminatory barriers, promoting affordable production and mortgage financing, and many other tools needed to expand homeownership opportunities throughout cities and suburbs, especially for those most disadvantaged.

Equally important, Federal dollars spent on housing and community development projects create jobs. Through Project Transition we intend that these funds will help generate two crucial outcomes: investments that improve the quality, security and livability of housing and neighborhoods; and jobs for low-income residents ready, willing, and able to work.

Let me outline the contours of the proposed 1994 legislative initiatives and budget as they relate to Transitions and the six priorities.

Our first priority is reducing homelessness. We cannot call



outselves a Department of Housing without being concerned for the unhoused. The 1994 Act will further this commitment by proposing to reorganize McKinney homeless assistance grants into a more comprehensive "continuum of care" approach, by closely coordinating or combining numerous separate programs. It will give communities much greater flexibility to focus on the programs that best fit local needs.

Our new approach will make administration of homeless programs more efficient and responsive, allowing HUD to save on administrative costs and shift that savings to directly serve the homeless population. We envision major expansion of McKinney grants, of the Innovative Homeless Fund which you helped us create in 1993, and of Section 8 certificates for formerly homeless people, providing the vital link that assists homeless families to make the successful transition from temporary shelter to permanent housing, jobs, and self-sufficiency. Moving people along this continuum to a better life is at the foundation of our philosophy of Transitions.

Our second priority is improving public housing, especially turning around the most troubled developments. In 1993 we launched the Urban Revitalization Demonstration with more than one billion dollars in grants to restore severely distressed public housing developments in 34 cities. We will be continuing these efforts with a third round of new grants for FY 95. The proposed 1994 Act maintains our strong commitment to the future of public housing by streamlining existing programs and creating special new initiatives for job training and placement, resident organization, and family and youth services. These include Public Housing Family Investment Centers and Economic Development Centers to promote career opportunities, the Tenant Opportunity Program to strengthen resident activities, the Community Partnership Against Crime and Operation Safe Home initiatives to create a more secure environment, and the Jobs for Residents program to enforce Section 3 of the 1968 Housing Act and help generate economic self-sufficiency. Enabling public housing residents to succeed at work and become homeowners clearly represents what Transitions is all about.

Our third priority is to increase and preserve affordable housing and homeownership. Much has already been accomplished. The FHA had its second best year since 1934, insuring more than one million mortgages, including 400,000 for first-time homebuyers. More importantly, in 1993 the national homeownership rate increased by four-tenths of a percentage point, approximately 400,000 new homeowners, after more than a decade of decline and stagnation. These new homeowners include an increasing number of young households in their 20s and 30s, an age group that has been losing ground on homeownership since 1981. The legislative proposals in our 1994 Act will advance these commitments through funding the National Homeownership

Trust, and by significantly expanding homeownership counseling that is so vital for low-income renter families to make and maintain the transition to ownership. It also includes improving innovative multifamily risk-sharing arrangements that were begun in 1993 and expanding them to include single-family mortgages, preserving the existing inventory of affordable housing, reforming the rules for disposition of HUD-owned properties, and making key changes in FHA mortgage insurance to strengthen its usefulness to support low- and moderate-income homebuyers and housing production. Within this priority we show that Transitions is not just for homeless or low-income people. Homeownership for young first-time buyers is a very important Transition for moderate and middle-income households, one that the Clinton Administration and HUD strongly encourages.

Our fourth goal is to promote fair housing, equal opportunity, and residential choice. On Martin Luther King Day President Clinton signed an Executive Order creating the President's Fair Housing Council, and HUD's recent Fair Housing Summit explored many of our new initiatives. In addition, we are moving forward with an interagency working group on Fair Lending, led by myself, Attorney General Janet Reno, and Comptroller of the Currency Eugene Ludwig. The proposed 1994 Act will further our commitment to providing more housing choice, especially for low-income minorities concentrated in urban poverty neighborhoods, by offering mobility counseling to all families who are issued Section 8 rental assistance through a new program called Moving to Independence, by expanding support for testing and enforcement efforts by metropolitan non-profit organizations and state and local governments through the Fair Housing Initiatives Program (FHIP) and the Fair Housing Assistance Program (FHAP), by demonstration projects to promote consolidated planning and metropolitan-wide enforcement and mobility strategies, and by working with law enforcement and financial regulatory agencies to promote fair lending and insurance and get tough on redlining and discrimination. Recently 60 Minutes did a feature on Chicago's Gautreaux program, and how the lives of African-American families had changed for the better by having the opportunity to move to suburban housing, schools, and jobs. We consider these stories as important symbols of successfully making Transitions.

Our fifth priority is to empower communities for economic growth, human development, and better quality of life. Currently we are conducting technical assistance workshops in cities around the country to support the application process for Empowerment Zones and Enterprise Communities, one element of the Administration's larger community investment strategy that involves many HUD programs. The 1994 Act will expand economic and community development initiatives to support local infrastructure, neighborhood job creation, and strengthening community institutions. Among these are the Neighborhood LIFT

program designed to provide gap financing for commercial, retail, and mixed-use development projects in low-income communities, creating jobs and providing vitally needed local services. It also includes the Community Viability Fund, supporting capacity building and organization of local residents and institutions, promoting better design, public spaces and amenities, and encouraging and rewarding innovative local programs and initiatives. Finally, it includes renewing the National Community Development Initiative to leverage private foundation and corporate support for community development corporations, and the Economic Revitalization Initiative, providing grants to facilitate use by CDBG entitlement communities of Section 108 loan guarantees for economic development projects. The key point about this priority is that communities can also go through successful Transitions, and we should empower them to do so, just as we are doing with individuals and families.

Our sixth priority is reforming HUD management to bring excellence, service, and results to our program delivery. We have made great strides in the past year, including our Reinventing HUD initiative that has led to a major reorganization of our field structure, employee and union participation, and improving workplace conditions. We also created the HUD Training Academy to expand our training and increase effectiveness with both employees and outside intermediaries such as grant recipients and contractors. The 1994 Act will increase flexibility and strengthen management in several areas, especially FHA and Public and Indian Housing. In this priority the key Transition is by the Department itself, as we demonstrate that it is possible to truly Reinvent HUD.

#### **THE 1993 HOUSING AND COMMUNITY DEVELOPMENT ACT**

As you know, last year we sought expedited authorization on four critical legislative issues. Each of these initiatives were approved by the Senate in S. 1299 last November. A version of one of the proposals -- for multifamily property disposition -- passed the House last November in H.R. 3400, the National Performance Review legislation. We very much appreciate the forward movement by Congress on these vital concerns to the Department. We are pleased that you have included them in your new bill, H.R. 3838, the Housing and Community Development Act of 1994. However, we have been working diligently together with you on these matters for the past year, and we encourage you to consider expediting these 1993 legislative initiatives. We stand ready to assist you in any way that we can. Early enactment will make a great difference to the people and communities we serve, and Congress will justly deserve considerable credit for moving this legislation through as rapidly as possible. The four key provisions are:

- First, reforming the process of multifamily property



disposition is absolutely critical to our efforts to revitalize the FHA and produce more affordable housing. Our multifamily inventory is a rapidly growing problem of great concern, one that urgently needs action in the face of mounting costs and steadily increasing numbers of HUD-owned properties. At the end of FY 93, the HUD-owned inventory consisted of 31,300 units in 184 projects. The Department also faces problems with HUD-held mortgages assigned after default, and with FHA-insured multifamily properties at substantial risk of default.

We propose to modify the existing requirement that requires HUD to provide subsidies for all units even in unsubsidized buildings. The lack of sufficient budget for providing these required subsidies has led to a kind of Catch-22 where we can't sell the buildings, we can't really afford the costs of owning these properties, and we are forced to avoid foreclosing on other buildings, which adds to our problems with the insured inventory. In FY 93 HUD received \$93 million in Section 8 subsidies for property disposition, enough to fund 1,100 units out of 31,300 -- just 3 per cent of the total need. We must find a better way to move these properties back into private ownership. What we propose costs far less money than is required under current law, with savings of \$1.8 billion.

The FHA cannot fulfill its mission of insuring mortgages and maintaining the financial and physical health of our insured portfolio if it must devote such a large amount of its resources to managing foreclosed properties, something it is not well equipped to do. Within the constraints of tight fiscal discipline, we need creative solutions to prevent HUD from becoming America's largest landlord.

Our legislative proposal for FHA multifamily property disposition is based on several key principles:

- Preservation -- We should preserve the majority of subsidized rental housing as affordable housing for low and moderate income use, unless the private market can meet this need.
- Protection -- We should protect tenants currently living in units assisted by Section 8 subsidy contracts.
- Flexibility -- HUD must be able to balance the need to replenish the insurance fund with the need to sell a property at a price which makes a project feasible.
- Partnerships -- HUD should work with the Resolution Trust Corporation and other federal agencies, state and local governments, community-based non-profit organizations, tenant groups, and private business to pursue successful disposition strategies at the community level.
- Choice -- Low and moderate income households should be

able to choose where they want to live throughout metropolitan areas, and not be confined to particular neighborhoods or buildings.

Mr. Chairman, moving these properties back into the private sector is the best long term solution, one we believe the members of this Committee and Congress can strongly support.

- Second, the proposed Community Partnership Against Crime, or COMPAC, will expand the Public Housing Drug Elimination Grant program to cover all types of criminal activity, not just drug-related crime. We seek to broaden the program by including community policing, youth recreation and sports programs, anti-gang activities, resident participation and services, and improved security equipment and retrofitting of buildings among the eligible activities. COMPAC will help build partnerships between local residents, public housing authorities, the police, and neighborhood organizations, placing greater emphasis on community involvement and comprehensive, long-term strategies. As I mentioned earlier, we have launched Operation Safe Home to strengthen law enforcement and fight crime, violence, and drugs in public housing. We need COMPAC to get the job done that the President is fighting for through his anti-crime bill. The residents of public housing deserve to live with better safety and security, and they urgently need our support in improving their communities and their lives.
- Third, public housing rent reform is necessary to make work pay by providing real incentives for families to stay together, find and hold jobs, and increase their earned income. We propose two key changes. First, for public housing residents who get a job after having been out of work for at least one year, HUD would exclude for a period of 18 months any increased rent they would be required to pay due to their additional income. Second, for all public housing residents, we seek to establish a rent ceiling that will be lower than the current standard based on 30 percent of household income. The new ceiling would be determined by the reasonable rental value of the unit as a percentage of the fair market rent in the area. These two reforms will change current policies that often discourage public housing residents from getting jobs, from keeping jobs, and from living with and financially supporting their families. In addition, after several years of full implementation, we expect these initiatives to pay for themselves by increasing the income base on which public housing authorities are able to collect rents. It will also lead to an increase in adult role models for public housing residents, especially the children, helping to generate community leadership and increase economic opportunity. We absolutely need such

reforms if we are to succeed at revitalizing public housing, and enabling residents to make the transition to economic independence through full-time employment and private homeownership.

- Fourth, the Economic Revitalization Initiative will authorize HUD to make grants to communities to help finance economic development projects using Section 108 loan guarantees under the CDBG program. These grants, initially using leftover UDAG funds, can be used to improve the financial viability of projects and lessen the potential need -- in case of default -- to repay the guaranteed loans by using future CDBG allocations. Guaranteed loan commitments of up to \$2 billion per year can be made under the 108 program, and these grants will encourage its full utilization, leveraging billions of dollars in private investment to create jobs and encourage neighborhood revitalization. This program is a very important tool to promote urban economic development, and we are eager to make these grants available to communities needing assistance. It fits well with other key initiatives such as Empowerment Zones and Enterprise Communities, or strengthening the Community Reinvestment Act.

Thank you, Mr. Chairman, for the opportunity to present this overview on housing and community development issues for the upcoming legislative year. It will be a very busy year, with a great many specific issues to address. I know that working together with you, we will do what is right for the efficient and effective delivery of these programs in a timely fashion.

Mr. Chairman, I also thank you for strongly supporting our efforts to better serve the American people, to improve their access to decent, affordable housing and good communities. I will be happy to answer any questions you or the Members of the Committee may have.



February 24, 1994, hearing held by the  
Subcommittee on Housing and Community Development,  
entitled "H.R. 3838, Housing and Community  
Development Act of 1994"

QUESTIONS FROM CHAIRMAN HENRY B. GONZALEZ TO  
HONORABLE HENRY G. CISNEROS

1. Some Housing groups have commented that HUD's proposed Community Partnerships Against Crime or COMPAC program, included in H.R. 3838, has a formula allocation system that will result in the bulk of grant funds being distributed to large public housing authorities to the disadvantage of smaller housing authorities. What is your response to this concern?
2. H.R. 3838 provides for the merger of the Section 8 certificate and voucher rental assistance program into a single rental assistance program. One of the central provisions of the merged program is that it maintains the current law certificate program requirement that a low-income tenant cannot pay more than 30% of their adjusted gross income for rent. What is your opinion of this requirement?
3. Can you comment on the proposal to reduce the upper limit of fair market rents to the 40th percentile from 45th percentile. ARE THERE NOT INHERENT CONFLICTS BETWEEN THIS ACTION AND OTHER ACTIONS OF THE DEPARTMENT TO FOSTER ECONOMIC AND RACIAL INTEGRATION? DOESN'T THIS PROPOSAL LIMIT A TENANT'S CHOICE OF HOUSING AND NEIGHBORHOOD?  
  
HAVE THERE BEEN ESTIMATES OF THE ADDITIONAL FAMILIES THAT WOULD BE SERVED BY THIS REDUCTION? CONVERSELY HAVE THERE BEEN ESTIMATES OF THE NUMBER OF FAMILIES WHO WOULD NOT BE SERVED IF THE FAIR MARKET RENT UPPER LIMIT WERE INCREASED BY LAW?
4. The Administration's proposed FY 1995 HUD budget states that HUD will be proposing legislation to create a super-preference for public and assisted housing applicants who are employed. Could you please explain how such a super-preference for housing assistance would operate, and what impact, if any, it would have on those unemployed persons who are seeking housing assistance?

Questions from Chairman Gonzalez to Honorable Henry G. Cisneros  
Page two

5. Once again, the budget includes measures designed to lower the costs of the preservation program including lowering the federal cost limit to 100% of the fair market rent and eliminating the grant program for non profit purchasers. It also includes two new ways to lower costs including limiting the appraised value to residential real estate in all cases and limiting incentives to 100% of the fair market rent instead of 120%.

As you know, although these provisions may lower the cost of the preservation program, it may also have a disproportionate impact on high cost areas and in areas where there are active non profit groups interested in purchasing properties. Properties that would be preserved under the old provisions may be lost to the affordable housing inventory because they will exceed the cost limit and sufficient incentives will not be available.

CAN YOU COMMENT ON THESE PROVISIONS? ARE THERE NOT OTHER WAYS TO REDUCE COSTS WITHOUT JEOPARDIZING THE LOSS OF INVENTORY IN HIGH COST AREAS?

ON A RELATED MATTER, THE BUDGET REQUEST PROVIDES NO NEW FUNDING FOR PRESERVATION AND THE EARTHQUAKE SUPPLEMENTAL RESCINDED \$75 MILLION FROM PRESERVATION. I AM CONCERNED THAT IF THERE ARE INSUFFICIENT FUNDS AVAILABLE FOR PRESERVATION, AGAIN PROPERTIES WILL BE LOST UNDER THE LAW. CAN YOU COMMENT ON THIS DILEMMA?

6. Soon HUD will release its Congressionally mandated study of the adequacy of the CDBG allocation formula. Are you able to discuss how the Department plans to address the role of wealthier communities in the program? Will there be a shift in the amount allocated under the formula to any one part of the country?

## Responses from Secretary Cisneros

## Questions From House Subcommittee on Housing and Community Development

## Questions from Chairman Henry B. Gonzalez

Question 1: Some Housing groups have commented that HUD's proposed Community Partnerships Against Crime or COMPAC program, included in H.R. 3838, has a formula allocation system that will result in the bulk of grant funds being distributed to large public housing authorities to the disadvantage of smaller housing authorities. What is your response to this concern?

Answer 1: Under the COMPAC program the Secretary will set forth criteria for establishing a class of housing authorities (HAs) that have severe crime problems. To establish this class of applicants, the Secretary shall take into account the average crime, neighborhood and physical condition of the HA's developments using the most recent standardized data.

Preliminary analysis suggests that indicators of crime and estimated project physical need should be used. City-wide annual crime data taken from the Department of Justice FBI Uniform Crime Reports for the most recent 2-3 years would represent crime condition. The most promising indicators are per capita measures of murder and robbery, each indexed separately and weighted equally. Estimated project need would be based upon values already computed for the funding of physical backlog need in the Comprehensive Grant formula of public housing modernization. This formula uses well-tested indicators of physical and neighborhood need such as the average size of household, the age of the development, high rise family status, and measures of HA size and city-wide population loss applied to family projects. The crime and project need indices would be weighted equally in determining the per-capita funding of the targeted class of HAs.

## Targeted Severe Crime Areas

By using the above data indicators for an analysis, it is recommended that public housing agencies of over 1250 units and Indian housing authorities of over 1000 be targeted as the established severe crime areas. It is further recommended that 75 percent of the recommended appropriation be targeted to this class of HAs. This recommendation is based on a number of factors which demonstrate this threshold of HAs have more than 75 percent of the need.

The problem of crime for HAs is an interplay of physical vulnerability and the actual social incidence of crime. Using the incidence of homicides and robbery to represent the relative incidence of crime in an HA, these HAs have 80 to 85 percent of the crime problem. When data was analyzed within the universe of



HAS which have applied for the Public Housing Drug Elimination Program (PHDEP), it is found that these same large HAS have 90 percent of the crime problem of all HAS that have ever applied.

Using housing backlog need based on physical inspections to represent the physical vulnerability that interplays with the actual social incidence of crime, the larger HAS with almost 60 percent of the housing units have 71 to 78 percent of the backlog need (depending on what categories of backlog need are included). Moreover, their share of physical need due to vandalism is well over 80 percent. If only HAS that ever applied for PHDEP are considered, then the larger HAS have over 80 percent of the physical need, whatever the definition of need.

In summary, any reasonable combination of physical need and crime incidence gives HAS above 1250 units (IHAS above 1000 units) over 75 percent of the need.

#### Funding Distribution Options

Housing authorities classified within the targeted severe crime areas, would submit a comprehensive security plan to cover a five year period. This initial application would be reviewed and required to meet a minimum competency score on the quality of the plan, capability of the HA to implement the plan, and the community involvement demonstrated in the development and implementation of the recommended strategy. The application would also include an assessment tool which would standardize tracking of crime and management indicators.

At the end of the first year and for a total of four consecutive years, HAS will submit a performance review report updating indicators as reported in the original assessment tool. They will also report strategy implementation progress and any requests to alter their comprehensive security plan. Following the review of this performance report, the next year's funds will be released to the targeted HAS.

Two options are offered to determine the amount of funding provided to each HA. These options are presented under the assumptions of \$265 million in appropriations during FY 1994, with \$10 million being designated for technical assistance.

#### Option 1

- o Multiply the available appropriated funds by 75 percent which results in \$191.25 million available for larger HAS. Divide this portion of funds by the 805,000 total unit count of the representative HAS. This would result in \$238 per unit funding formula for each HA over 1250 units (IHAS over 1000).

## Option 2

- o Apply the crime formula to all HAS with the following exception. In order to ensure continuity of previous programs, the formula would hold harmless all housing authorities at a level comparable to FY 1993 funding under PHDEP or at an average amount of funding awarded over the last three years. The identified funding level would be designated for each HA and would continue each year for five years within the structured formula indices and appropriated funding levels.

The remaining funds not targeted to the class of HAS with severe crime problems (\$63.75 million or 25 percent of the appropriated funds) will be made available to all other HAS. This is a \$10.75 million increase over the FY 1994 appropriation for HAS with under 1250 units. These figures are based on the same appropriation assumptions as stated above. Another assumption which must be made for this group is that all HAS will not apply for the program. In looking at application submissions over the five year history of PHDEP, a total of 1016 HAS representing 355,000 units have applied for funding, leaving 2191 HAS representing 226,000 units which have never requested assistance. This demonstrates that not all HAS should be targeted for COMPAC funding. Based on these assumptions, the following two options are recommended for funding HAS of under 1250 units (IHAS of under 1000 units):

## Option 1

- o A request would be made to all HAS asking them to give notice of their intent to apply for COMPAC funding. This would determine the universe of HA applicants and their representative unit count. The funds available would then be divided by the identified unit count. For example, by using the total number of HAS who have applied for PHDEP as a sample universe of applicants, the \$63.75 million available would be divided by 355,000 units. Applicants would receive a funding level of \$180 per unit. Applicants would be required to meet minimum scoring criteria to receive funding. Under this option all eligible HAS would receive a portion of the funding, but in most cases would receive a smaller grant award than they currently receive under PHDEP. For some HAS this amount is half as much funding as they are currently receiving.

## Option 2

- o All interested HAS would compete for the available funding. Funding levels would be held at comparable levels as HAS were eligible for under the FY 1993 PHDEP funding levels. Under this option not all HAS would receive funding but would compete for higher grant awards which would provide continuity of existing programs. The Department will provide training and technical assistance to unsuccessful HAS to improve their strategies and opportunity of funding in FY 1996.

Under the prior listed options, HAS will submit grant applications to cover a five year period. The Secretary will award preference points to applicants seeking a subsequent grant if the grant is to be used to continue or expand activities assisted under a previous grant if the prior grant is being managed soundly and demonstrates success. Applications will be reviewed under the selection criteria as established by statute.

Two options are offered to determine the amount of funding made available to each HA within this group and are made based on the same set of appropriation assumptions as stated above.



## Questions from Chairman Henry B. Gonzalez

Question 2: H.R. 3838 provides for the merger of the Section 8 certificate and voucher rental assistance program into a single rental assistance program. One of the central provisions of the merged program is that it maintains the current law certificate program requirement that a low-income tenant cannot pay more than 30% of their adjusted gross income for rent. What is your opinion of this requirement?

Answer 2: The Department believes that its proposal for a merged certificate and voucher program, which requires families to contribute 30% of their income for rent but **allows** them to pay up to 40% of their income for rent, is the preferred approach. This compromise between the certificate and voucher program designs protects the tenant from a heavy rent burden, but allows somewhat more choice in the rental housing market by allowing families to rent units slightly above the Fair Market Rent (FMR). This flexibility will allow elderly tenants to rent in place, for example, if their unit's rent is somewhat over the FMR, and allow families to move to neighborhoods which have better schools. We believe the added flexibility that our proposal gives to (but not requires of) tenants **allows** them more choice in rental units available.

From Chairman Gonzalez:

3a.

ARE THERE NOT INHERENT CONFLICTS BETWEEN THIS ACTION AND OTHER ACTIONS OF THE DEPARTMENT TO FOSTER ECONOMIC AND RACIAL INTEGRATION? DOESN'T THIS PROPOSAL LIMIT A TENANT'S CHOICE OF HOUSING AND NEIGHBORHOOD?

On balance, this proposal will substantially increase the options of low income renters. One of the most important actions that this Department can take to help integrate low-income families into the American mainstream is to enable a larger proportion of them to receive certificates, and with slightly lower FMRs for the metropolitan area as a whole we will be able to serve substantially more families. HUD does not run entitlement programs. Too much generosity toward those who are assisted often means assisting fewer people who need help. The more families who receive Section 8 certificates, the more families who will have real options in the housing market.

In the average metropolitan area, the proposed change would lower the Fair Market Rent by about 3 percent. HUD will retain its authority to approve higher rents in the more expensive parts of metro areas, up to 120 percent of FMR. This guarantees that families have real choices in both the central cities and suburbs. However, in many housing markets there will be no need to exercise this authority, because an ample supply of decent housing renting for less than FMR is already available throughout the metropolitan area.

Moreover, HUD proposes to overhaul the Section 8 tenant-based program so that barriers to tenant choice and to landlord participation are removed. We have asked Congress to repeal a set of significant obstacles to landlord participation identified by the owners and managers. In addition, we propose funding to facilitate enhanced metropolitan-wide housing search under the Choice in Tenancy (CIT) initiative. Building on the success of the Gautreaux experience, the effort would involve two prongs. Families would receive counseling and other assistance to increase their knowledge of housing opportunities throughout a community, and ensure that they can act on their locational choices. Rather than concentrating in lower income neighborhoods, families participating in the Section 8 and other assisted housing programs would be encouraged to widen their horizons, while landlords across the metropolitan area would be encouraged to participate in the Section 8 program, further enhancing housing choices.

Under the Certificate and Voucher programs as currently administered, the PHA is responsible for assisting low-income families during their housing search, and also for conducting outreach to landlords to assure broad availability of housing in a wide range of neighborhoods. However, the quality and extent of this counseling is uneven, and the PHA's area of operation often stops at the city limits, as opposed to the entire

metropolitan area. While the Certificate and Voucher programs have successfully broadened residential opportunities for low-income families (especially when compared with public housing and other project-based programs), these programs have not come close to reaching their full potential for promoting increased mobility. CIT offer participating families significantly expanded choice as well as meaningful support so they can act on these choices.

- 3b. HAVE THERE BEEN ESTIMATES OF THE ADDITIONAL FAMILIES THAT WOULD BE SERVED BY THIS REDUCTION?

The additional families served under this reform are estimated at 5,300 in FY 1995; 16,200 in FY 1996; 21,100 in FY 1997; 25,000 in FY 1998; 28,300 in FY 1999.

- 3c. CONVERSELY HAVE THERE BEEN ESTIMATES OF THE NUMBER OF FAMILIES WHO WOULD NOT BE SERVED IF THE FAIR MARKET RENT UPPER LIMIT WERE INCREASED BY LAW?

If the FMR were raised to the 50th percentile of rents paid by recent movers, and there were no change in the appropriations for Section 8, we estimate the following reductions in the number of families who would otherwise be assisted: 4,400 in FY 1995; 13,500 in FY 1996; 17,600 in FY 1997; 20,800 in FY 1998; 23,600 in FY 1999.



## Questions from Chairman Henry B. Gonzalez

Question 4: The Administration's proposed FY 1995 HUD budget states that HUD will be proposing legislation to create a super-preference for public and assisted housing applicants who are employed. Could you please explain how such a super-preference for housing assistance would operate, and what impact, if any, it would have on those unemployed persons who are seeking housing assistance?

Answer 4: HUD will be proposing legislation that will add an employment preference as an example of an allowable local preference. For public housing, a housing agency will still be required to give a priority to families with a Federal Preference in at least half of its admissions. The percentage of Federal Preference admissions rises to a minimum of 70 percent in project-based Section 8 and to 90 percent in the Section 8 certificate and voucher programs. This will ensure that many of the neediest families are assisted.

It is in doing the limited number of local preference admissions that an employment preference could act as a "super-preference." That means that it could be considered before any other preferences, including Federal Preferences, that the applicant might have.

It is HUD's position that serving the neediest families and attracting working families are worthwhile and obtainable objectives for the public and assisted housing programs.

## GONZALEZ QUESTION NO. 5

5. Response:

Given the per unit cost of projects preserved under the Emergency Low-Income Housing Preservation Act of 1987 (ELIHPA), we would expect these costs to increase under the more generous provisions of the Low-Income Housing Preservation and Resident Homeownership Act of 1990 (LIHPRHA). Projects approved under ELIHPA, which is administratively limited to 100% of the Section 8 Fair Market Rents (or local comparable market rents if less) are averaging in excess of \$22,000 per unit in Section 8 budget authority. Further, nonprofit transfers under ELIHPA are utilizing an addition \$1,500 per unit in Flexible Subsidy to effect repairs and make essential improvements.

Interestingly, ELIHPA has been most active and productive in the high cost areas: Massachusetts, California, Illinois and Washington state. These are the same areas where there are the most significant incidences of resident and nonprofit activity and interest in the program. Of the 140 plans of action approved under ELIHPA through the end of January 1994, 112 (or 66%) have been in these locations. The Department's analysis of the preservation eligible portfolio, shows that less than a fifth of the projects likely to participate in the program exceed 100% of the FMRs, less than half of those exceeding 120% of the FMRs. Assuming that the approved ELIHPA plans of action fairly reflect the likely universe, the administrative limitation on rents

appears not to have been a factor in an owner's decision to participate or accept incentives. The Department concludes, therefore, that a rent limitation of 100% of the FMRs, which did not serve as a deterrent for owner participation in ELIHPA, would serve as no more of a deterrent in LIHPRHA.

If all preservation values are limited to residential market rental, the number of properties whose values would exceed the revised federal cost limit drops by almost two-thirds or roughly to five percent of properties likely to participate. This change, therefore, has only minimal effect.

Regarding the proposal to eliminate the grant program for nonprofit purchasers, we should point out that since only one in three LIHPRHA Notices of Intent is to sell, and given the impact of the valuation and revised federal cost limit savings proposals, the Department does not perceive a need to maintain a separate grant fund to effect transfers to nonprofits. ELIHPA nonprofit transfers, which have not had the advantage of a supplemental grant program, have been effected utilizing creative financing and the support of local governments and business interests.

Although some owners may choose to prepay if their preservation rents exceed the revised federal cost limit, given the Department's experience with ELIHPA and the impact of both cost savings proposals, we feel that not many owners will so choose, even in high cost areas. Any loss to the stock would be modest. If an owner chooses to prepay, tenants would be



protected under the provisions of §223 of LIHPRHA.

The Department is also currently exploring in combination with various constitutencies and the Inspector General other alternatives to reduce the cost of the program:

- o Limit the availability of Section 8 to very low income families only.
- o Float the Annual Authorized Return so that it conforms to market investment expectations. The 8% that seemed fair in 1990 seems too high today.
- o Create a "window" for owners to participate in the program, perhaps two years from now for all who are already eligible and two years from the date of eligibility for those becoming eligible.
- o Create an equity threshold for eligibility. Instead of the "one dollar of equity buys a free rehab loan" that the program is now, require a per unit minimum so that only projects with genuine market value participate.
- o Convert loans with mortgage insurance supported by tenant rent subsidies into a straight debt service payment program on a conventional loan. This would eliminate the need for mortgage insurance and would limit the need for expensive long term rent subsidies.

The Department, in partnership with the National Housing Trust, has embarked on a series of general meetings and discussion committees to reexamine the cost, tenant protection, processing and valuation issues in LIHPRHA. The discussion

committees are represented by a broad range of interests, including owners, tenants, nonprofits, State governments and trade associations representing all groups. We are hopeful that this series of discussions will result in independent recommendations to the Congress for improvements to the structure of LIHPRHA and which maintain the principles of the "grand compromise" represented by LIHPRHA while encouraging cost savings and program streamlining.

The Department proposed no new funding for preservation in the FY 1995 budget because it was felt that the carry over from previous fiscal years coupled with the FY 1994 appropriation would be sufficient to fund approvable projects through the end of FY 1995. Of course, part and parcel of this approach is adoption of the cost savings measures featured in the FY 1995 budget. The Department shares the Committee's concern that the recent \$75 million rescission will compromise the Department's strategy for managing its budgeted resources in the most cost effective and responsible manner.

## Questions from Chairman Gonzalez to Secretary Henry G. Cisneros

6. Soon HUD will release its Congressionally mandated study of the adequacy of the CDBG allocation formula. Are you able to discuss how the Department plans to address the role of wealthier communities in the program? Will there be a shift in the amount allocated under the formula to any one part of the country?

A preliminary analysis of the CDBG formula has been completed. The Department is not yet able to specifically discuss the points raised in your questions. The Secretary is currently considering options developed under that analysis and expects to release the study soon.



HOUSING AND COMMUNITY DEVELOPMENT SUBCOMMITTEE HEARING  
FEBRUARY 24, 1994

QUESTIONS OF  
CONGRESSMAN BRUCE F. VENTO  
FOR HUD SECRETARY HENRY CISNEROS

1. In the current McKinney Supportive Housing program, what has been the proportion of grants over the years that are awarded to non-profits? How many of those grants that are awarded to a government entity contracting out to non-profits?
2. How much of HUD McKinney funding has gone out to traditional rural areas (including competitive grants and state set-asides)?
3. Have the required evaluations of HUD McKinney programs that you had indicated would be completed last year been completed? Are they available?
4. What proportion of Emergency Shelter Grant (ESG) dollars are distributed for its various eligible activities nationwide?
5. What are your plans regarding the Federal Emergency Management Agency's Emergency Food and Shelter Program?
6. I understand that the bulk of unspent, "in the pipeline", Public Housing Modernization funds are in large, troubled authorities. Did you consider recapturing these funds as opposed to cutting Modernization funds for all PHAs?
7. As you may know, the Cities of Minneapolis and St. Paul were unable to compete for the previous years' Moving to Opportunity grants. Is the Department open to considering Metropolitan Statistical Areas or other options as opposed to separate core cities for this program?

## Responses from Hon. Cisneros to Cong. Vento's Questions

Supportive Housing Question From Congressman Bruce Vento  
(February 24, 1994 Hearing)

Question: In the current McKinney Supportive Housing program, what has been the proportion of grants over the years that are awarded to non-profits? How many of those grants that are awarded to a government entity contracting out to non-profits?

Answer: From 1990-1993, approximately 65% of Supportive Housing funds have been awarded directly to non-profit organizations. During the same time period, about 24% of Supportive Housing funds have been awarded to a governmental entity that worked with non-profit organizations in carrying out activities.

As for the other McKinney supportive housing programs, a significant portion of the funds are awarded to government entities which in turn often work with non-profits to carry out the program activities.

2. How much of the McKinney funding has gone to traditional rural areas (including competitive grants and state set-asides)?



*Special Needs Assistance Programs  
Competitive Grants to Those Communities  
Not Receiving ESG Formula Grants, FYs 1990 - 1992*

<u>Place</u>	<u>Amount</u>	<u>CDBG Entitlement</u>
<i>Cullman (AL)</i>	\$ 46,644	N
<i>Kenai (AK)</i>	490,889	N
<i>Kenai</i>	150,270	N
<i>Wasilla</i>	478,161	N
<i>Yuma (AZ)</i>	725,274	Y
<i>Russellville (AR)</i>	2,482,810	N
<i>Capitola (CA)</i>	628,546	N
<i>Concord</i>	2,197,318	Y
<i>Concord</i>	456,658	Y
<i>El Cajon</i>	2,496,875	Y
<i>Encinitas</i>	1,118,751	Y
<i>Escondido</i>	530,414	Y
<i>Escondido</i>	1,786,915	Y
<i>Escondido</i>	2,087,080	Y
<i>Highland</i>	422,692	N
<i>Larkspur</i>	768,928	N
<i>Morgan Hill</i>	235,171	N
<i>Oceanside</i>	1,654,573	Y
<i>Redding</i>	399,970	Y
<i>San Luis Obispo</i>	512,585	N
<i>Santa Fe Springs</i>	645,120	N
<i>South Laguna</i>	1,180,942	N
<i>Northridge</i>	828,962	N
<i>Pleasanton</i>	309,750	N
<i>Salinas</i>	175,130	Y
<i>Gilroy</i>	332,167	N
<i>Norwalk</i>	49,377	Y
<i>Culver City</i>	352,648	N

<u>Place</u>	<u>Amount</u>	<u>CDBG Entitlement</u>
<i>Richmond (CA)</i>	\$ 371,074	Y
<i>Livermore</i>	144,596	Y
<i>Aurora (CO)</i>	490,006	Y
<i>Durango</i>	183,579	N
<i>Longmont</i>	292,761	Y
<i>Wheat Ridge</i>	571,400	N
<i>Norwalk (CT)</i>	2,450,292	Y
<i>Stamford</i>	2,773,691	Y
<i>Westport</i>	2,338,571	N
<i>Archer (FL)</i>	361,444	N
<i>Gainesville</i>	1,552,496	Y
<i>Key West</i>	447,889	N
<i>Lakeland</i>	239,014	Y
<i>Lakeland</i>	358,635	Y
<i>Lantana</i>	1,162,064	N
<i>Naples</i>	1,165,523	Y
<i>Ocala</i>	626,257	Y
<i>Panama City</i>	437,913	Y
<i>Cumming (GA)</i>	262,275	N
<i>Maui (HI)</i>	372,960	N
<i>Maile</i>	533,702	N
<i>Pearl City</i>	578,171	N
<i>Boise (ID)</i>	658,920	Y
<i>Couer d'Alene</i>	1,341,754	N
<i>Lewiston</i>	301,063	N
<i>Aurora (IL)</i>	816,690	Y
<i>Belleville</i>	197,947	N
<i>Joliet</i>	1,038,345	Y
<i>McHenry</i>	1,866,883	N
<i>McHenry</i>	918,395	N

<u>Place</u>	<u>Amount</u>	<u>CDBG Entitlement</u>
Springfield (IL)	\$ 299,912	Y
Urbana	194,244	Y
Woodstock	417,116	N
Bloomington (IN)	1,260,000	Y
Huntington	751,730	N
Jeffersonville	612,664	N
Lafayette	374,141	Y
Lawrenceburg	1,966,381	N
Lawrenceburg	665,162	N
Seymour	213,152	N
Cedar Rapids (IA)	3,071,242	Y
Columbus (KS)	171,480	N
Lawrence	106,624	Y
Buckhorn (KY)	420,042	N
Frankfort	962,394	N
Frankfort	931,199	N
Frankfort	27,420	N
Jefferson (LA)	424,874	N
Opelousas	200,000	N
York (ME)	942,543	N
Auburn	1,245,578	N
South Paris	512,676	N
Columbia (MD)	187,205	N
Bedford (MA)	560,820	N
Brighton	971,940	N
Gloucester	1,800,000	N
Haverhill	1,109,279	Y
Hyannis	994,560	N
Allston	180,013	N
Brookline	402,610	Y



<u>Place</u>	<u>Amount</u>	<u>CDBG Entitlement</u>
Chelsea	\$ 202,000	N
North Dartmouth	52,501	N
Hyannis	198,209	N
Peabody	790,398	N
Holyoke	831,063	Y
Northhampton	946,935	Y
Pittsfield	1,662,960	Y
Holland (MI)	472,032	N
Owosso	115,649	N
Midland	34,235	Y
Southfield	134,720	Y
Monroe	123,622	N
Southfield	1,240,314	Y
Southfield	887,775	Y
Ypsilanti	593,150	N
Bloomington (MN)	610,336	Y
Minnetonka	1,364,141	N
Plymouth	122,535	N
Hopkins	235,524	N
Hattiesburg (MS)	186,000	N
Clinton (MO)	408,324	N
Joplin	404,210	Y
Joplin	446,165	Y
Independence	159,272	Y
Butte (MT)	802,800	N
Missoula	492,634	N
Lincoln (NE)	2,225,929	Y
Carson City (NV)	571,115	N
Sparks	780,769	Y
Concord (NH)	5,486	N
Dover	217,080	Y
Portsmouth	111,542	Y
Nashua	488,178	Y

<u>Place</u>	<u>Amount</u>	<u>CDBG Entitlement</u>
Plainfield (NJ)	\$ 375,900	N
Roselle	178,500	N
New Brunswick	1,183,957	Y
Raritan	330,653	N
White Township	448,725	N
Red Bank	141,141	N
Millington	1,789,754	N
Somerville	775,152	N
Bath (NY)	207,403	N
East Elmhurst	747,300	N
Elmsford	262,500	N
Indian Lake	368,014	N
Rego Park	2,031,950	N
Amityville	251,754	N
Kingston	679,767	N
Port Chester	241,746	N
Amherst	947,161	Y
Patchogue	464,395	N
Bethpage	606,963	N
Brentwood	1,251,484	N
Glen Head	655,767	N
Boone (NC)	224,659	N
Columbia	710,834	N
Durham	289,093	Y
Laurinburg	142,448	N
Asheville	265,498	Y
Fargo (ND)	347,161	Y
Williston	50,400	N
Delaware (OH)	138,132	N
Kent	636,923	Y
Lorain	2,392,615	Y
Fremont	196,500	N
E. Liverpool	531,888	N
Lebanon	1,029,964	N
Washington	205,899	N

<u>Place</u>	<u>Amount</u>	<u>CDBG Entitlement</u>
Lucas County (OH)	\$2,325,166	N
Massillon	723,087	Y
Chardon	70,337	N
Ponca City (OK)	53,172	N
Shawnee	878,027	N
Astoria (OR)	496,279	N
Eugene	468,763	Y
Oregon City	458,243	N
Salem	921,757	Y
Salem	1,054,560	Y
Salem	854,725	Y
Ardmore (PA)	729,630	N
Pottstown	285,515	N
Sharon	217,424	Y
State College	221,559	Y
East Providence (RI)	517,817	Y
North Smithfield	525,537	N
Charleston (SC)	516,015	Y
Columbia	745,000	Y
Columbia	354,608	Y
Abilene (TX)	186,974	Y
Denton	168,303	Y
Ogden (UT)	863,882	Y
Provo	37,000	Y
Burlington (VT)	759,600	Y
St. Thomas (VT)	1,314,385	N
Lynchburg (VA)	993,496	Y
Winchester	88,374	N
Fredericksburg	147,000	N
Harrisonburg	343,698	N
Suffolk County	230,114	N
Waynesboro	678,629	N



<u>Place</u>	<u>Amount</u>	<u>CDBG Entitlement</u>
<i>Auburn (WA)</i>	\$ 780,405	Y
<i>Yakima</i>	215,413	Y
<i>Ellensburg</i>	124,375	N
<i>Kent</i>	380,726	N
<i>Lynnwood</i>	576,550	N
<i>Aberdeen</i>	237,467	N
<i>Olympia</i>	981,008	Y
<i>Redmond</i>	767,899	N
<i>Walla Walla</i>	269,851	N
<i>Wheeling (WV)</i>	314,900	Y
<i>Lake Delton (WS)</i>	236,212	N
<i>Menomonee Falls</i>	255,747	N

This table includes all FY 1990, 1991 and 1992 HOPWA, Permanent Housing, Transitional Housing, SAFAH, Shelter Plus Care and Section 8 SRO competitive program grants that did not go to ESG Entitlement Communities. There may be instances in which ESG formula grants did go to an urban county in which one or more of these jurisdictions lie, but that should be an exception.

Of the \$661.1 million in SNAPS competitive funding awarded over these three fiscal years, about 20 percent, or \$130.9 million, went to these non-ESG formula communities.

RESPONSE TO QUESTION BY CONGRESSMAN BRUCE VENTO FOR SECRETARY  
CISNEROS - March 22, 1994

3. Have the required evaluations of the HUD McKinney programs that you indicated would be completed last year been completed? Are they available?

The Department has funded a number of program evaluations of individual McKinney Act programs. A listing is provided below. Most of the evaluations are in the final report preparation stage and will be available soon. The HUD Office of Policy Development and Research is preparing a report to Congress that summarizes the findings of these evaluations. This report should be submitted to Congress by the end of this fiscal year.

Status of Evaluations of HUD's Homeless Assistance Programs

- 1) Emergency Shelter Grants Program (ESG)  
National evaluation based on data collected from a representative sample of grantees and sub-recipients/providers receiving funding during 1987-1991.  
  
Data collection complete. Final report received, 10/93. Report is in Departmental clearance with publication expected, 7/94.
- 2) Shelter Plus Care (S+C)  
National evaluation will examine the first two years of the program, 1992-1993.  
  
Draft interim report on the 1992 grants received, 3/94. Second stage of the evaluation beginning.
- 3) Section 8 Moderate Rehabilitation Single Room Occupancy Program (SRO)  
National evaluation that examined projects funded during the first year (FY 1988) of operations.  
  
Evaluation report issued in March 1990. Report is available through HUD USER.
- 4) Supplemental Assistance for Facilities to Assist the Homeless (SAFAH)  
National evaluation reviewed projects funded under the 1987 and 1990 competitions.  
  
Final report received, 9/93. Report is in Departmental clearance with publication expected, 4/94.
- 5) Supportive Housing Demonstration Program (SHDP)  
National evaluation of projects funded under the 1987-1990 Transitional Housing and Permanent Housing for the Handicapped Homeless components of the SHDP. SHDP is one of the predecessor programs to the Supportive Housing Program.  
  
Data collection complete. Final report has been submitted and is being revised pursuant to HUD comments. Target date for publication is 6/94.

## Vento ESG Question

March 22, 1994

4. What proportion of Emergency Shelter Grants Program dollars are distributed for its eligible activities nationwide?

FY 1991 ESG funds were used in the following proportions:

Operations	47%
Essential Services	21%
Conversion, rehabilitation, renovation	20%
Homeless Prevention	9%
Administration	3%

Since 1987, the proportion of funds used for rehabilitation have declined from a high of 56% to 20%. The FY 91 percentages of funding patterns are very similar across all ESG grantees.

5. What are your plans regarding the Federal Emergency Management Agency's Emergency Food and Shelter program?

The Administration's Fiscal Year 1995 Budget proposes to transfer the administration of the Emergency Food and Shelter program from the Federal Emergency Management Agency (FEMA) to the Department of Housing and Urban Development (HUD).

The Department has a high regard for the existing operation of the program and the excellent work being done by recipients of FEMA assistance. The Department intends that the essential relationships between the Federal government and Emergency Food and Shelter National Board will remain strong and that HUD is committed to making the transition a smooth and effective one. The Department will consult with FEMA, the United Way and other interested parties to accomplish a smooth transfer.

The Department recently undertook an extensive consultation with homeless providers, local officials and homeless and formerly homeless persons to help determine how the nation's efforts to break the cycle of homelessness can be improved. Over 4,000 responses were received and the need for consolidating and streamlining homeless programs was a frequent recommendation.

The FEMA program's move to HUD will streamline the allocation of resources and increase the coordination of the emergency services portion of the continuum of care at the state and local levels.



Questions from Congressman Bruce F. Vento

Question 6: I understand that the bulk of unspent, "in the pipeline", Public Housing Modernization funds are in large troubled authorities. Did you consider recapturing these funds as opposed to cutting Modernization funds for all PHAs?

Answer 6: The Department has taken a proactive approach over the past year and provided additional guidance and assistance to HAS to reduce the pipeline of both unobligated and unexpended funds. As of 9/30/92, 48 HAS had \$10 million or more of unobligated 1991 and prior year funds, totaling \$1,896.8 million. As of 9/30/93, this number had been reduced to 22 HAS with \$807.7 million in unobligated 1991 and prior year funding. Overall, the Department has improved the rate of obligation; however, a large percentage of unobligated modernization funds is concentrated in a few large HAS, many of which have been designated as "Troubled." Many of these HAS have housing inventories that are severely deteriorated and recapturing approved modernization funds would serve only to exacerbate the problem.

The Department views the recapture of modernization funds as a last resort since such action adversely impacts on public housing residents whose homes need rehabilitation. Before recapturing funds, the Department exhausts all other means of bringing about improvement. First, HUD staff provides technical assistance to assist the HA to: (1) revise budgets to expend the oldest approved funds before incurring costs in subsequently approved programs; and (2) acquire in-house capability for administering its modernization program by providing staff training or assisting in the hiring of additional staff. Second, under the Comprehensive Grant Program (CGP), there are three means of communicating deficiencies to the HA: (1) a letter; (2) a Notice of Deficiency; and (3) a Corrective Action Order. A letter covers minor issues, and a Notice of Deficiency and/or Corrective Action Order are issued when the deficiency is of a more serious nature, has persisted for a substantial period of time and represents a pattern of errors. A Corrective Action Order becomes a part of the Annual Contributions Contract (ACC) Amendment and is binding and enforceable by declaration of breach of the ACC or by withholding CGP funds.

A Corrective Action Order may be issued to the HA that lacks modernization capability and require the HA to take specific actions to correct its deficiencies, such as contracting out its modernization functions to a third party. Failure to take the necessary corrective actions can result in the withholding of the HA's CGP funds and in extreme instances, the Department may declare the HA in breach of the ACC and take over its operation. The Department views the above approach (technical assistance, Corrective Action Order, and declaration of breach) as one that is beneficial to the HA, its residents, and the local community

because it targets the HA's problem areas without compromising the Department's mission of providing decent, safe, and sanitary housing. The modernization funds are still available for their intended purpose; whereas recapturing funds from HAs with severe physical deterioration will result in further decline in their housing stock, residents being housed in substandard housing, and continued blight in the local communities.

Question 7: As you may know, the Cities of Minneapolis and St. Paul were unable to compete for the previous years' Moving to Opportunity grants. Is the Department open to considering Metropolitan Statistic Areas or other options as opposed to separate core cities for this program?

Answer 7: The Department of Veterans Affairs and Housing and Urban Development, Independent Agencies Appropriations Act, for FY 92, provided the initial funding and established eligibility criteria for the MTO program which limited the applicants to public housing agencies with jurisdiction over a city with a population of 400,000 or more and a metropolitan area population of 1.5 million. The Housing and Community Development (HCD) Act of 1992, changed the eligibility criteria for FY 1994 and thereafter to public housing agencies with jurisdiction over a city with a population of 350,000 or more and a metropolitan area population of 1.5 million.

The HCD Act of 1992 also limited the use of FY 93 funding to those cities selected for funding under the FY 92 appropriations, which was limited to cities with a population of 400,000, and allowed HUD to include the City of Los Angeles if the public housing agency submitted an approvable application. The 1990 Census data indicates that the population for the City of Minneapolis was 368,383, for the City of St. Paul was 272,235, and the population for the metropolitan statistical area was 2,079,000. Therefore, neither city was eligible to apply because the individual cities did not have the statutorily mandated population of 400,000.

The Department will publish a NOFA for FY 94 funding. The NOFA will reflect the 350,000 population threshold established by law for FY 94 which would make the City of Minneapolis eligible. Although the City of St. Paul is not eligible under law, the Department's FY 95 budget requests \$147.1 million for a new "Moving to Independence" initiative which is designed to provide extensive counseling to eligible families and help break down barriers to residential segregation and spacial concentration of low income families. If the Department's initiative is authorized, cities such as St. Paul would be eligible to apply for grants to provide mobility counseling.

February 24, 1994

Rep. Michael N. Castle

HOUSE SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT  
QUESTIONS FOR SECRETARY CISNEROS

MANAGEMENT PROBLEMS AT HUD:

\* MR. SECRETARY, MY MAIN CONCERN REGARDING HUD IS ITS MANAGEMENT DIFFICULTIES. I KNOW YOU HAVE BEEN TRYING TO ADDRESS THESE ISSUES, BUT I AM CONCERNED THAT THE DEPARTMENT IS UNABLE TO USE ITS RESOURCES IN THE MOST EFFECTIVE MANNER.

- WHAT IS THE STATUS OF YOUR EFFORTS TO ADDRESS THE PROBLEMS IN HUD'S AUTOMATED DATA SYSTEMS; STREAMLINING THE REGIONAL AND FIELD OFFICES; AND MONITORING THE BUDGETS AND IMPLEMENTATION OF THE MANY PROGRAMS UNDER YOUR JURISDICTION?

- SHOULD WE CONSIDER COMBINING PROGRAMS OR MOVING TOWARD MORE BLOCK GRANTS?

WELFARE REFORM:

\* WHAT IS HUD'S ROLE IN THE ADMINISTRATION'S EFFORT TO DEVELOP A WELFARE REFORM STRATEGY? WHAT STEPS CAN BE TAKEN TO COORDINATE SOCIAL SERVICES, INCLUDING HOUSING, AND HOW CAN HOUSING SERVICES BE REFORMED TO GIVE RECIPIENTS THE OPPORTUNITY TO SEEK EMPLOYMENT/

PHILADELPHIA REGIONAL OFFICE:

\* I WOULD ALSO LIKE TO KNOW THE STATUS OF YOUR EFFORTS TO IMPROVE OPERATIONS AT HUD'S PHILADELPHIA REGIONAL OFFICE. YOU



CAN PROVIDE A RESPONSE ON THE SITUATION IN PHILADELPHIA FOR THE RECORD.

SMALL STATES:

\* IS THE DEPARTMENT TAKING ANY STEPS TO ENSURE THAT SMALL STATES AND SMALL PUBLIC HOUSING AGENCIES ARE NOT UNFAIRLY AFFECTED BY REDUCTIONS IN FUNDING FOR HUD PROGRAMS?

FUNDING REDUCTIONS FOR FISCAL YEAR 1995:

\* HOUSING OFFICIALS IN DELAWARE HAVE EXPRESSED CONCERN OVER THE PROPOSED REDUCTION IN FUNDING FOR THE HOME PROGRAM AND ASSISTED HOUSING. WHY WERE THESE PROGRAMS SELECTED FOR THE CUTS?

\* WILL THE PROPOSED ADDITIONAL FUNDING FOR HOMELESS PROGRAMS IN FY 1995 ALLOW STATE AND LOCAL FLEXIBILITY TO PROVIDE EMERGENCY SHELTER AND TRANSITIONAL HOUSING ASSISTANCE?

## Responses from Hon. Cisneros to Cong. Castle's Questions

1. (No response received)
2. WHAT IS HUD'S ROLE IN THE ADMINISTRATION'S EFFORT TO DEVELOP A WELFARE REFORM STRATEGY? WHAT STEPS CAN BE TAKEN TO COORDINATE SOCIAL SERVICES, INCLUDING HOUSING, AND HOW CAN HOUSING SERVICES BE REFORMED TO GIVE RECIPIENTS THE OPPORTUNITY TO SEEK EMPLOYMENT?

Congressman, I appreciate the opening you have afforded to present a vision for HUD's response to the welfare reform imperative. Let me begin by saying that we have no choice but to reform welfare. The present crisis in our cities tells us that we cannot continue along the same track.

Well over 1 million of the families receiving rental assistance from HUD also receive Aid to Families with Dependent Children (AFDC), including families in public housing, in project-based Section 8, and those who hold certificates and vouchers. These families also usually receive Food Stamps, Medicaid, and other benefits. The fragmentation in the system and the obstacles created by the system itself must be seen to be believed.

Among my six priorities for HUD, two of them bear directly on welfare reform. One of them is reducing homelessness. Many AFDC households are homeless now; all too many of the children in them are being prepared for adult lives that will include spells of homelessness. A second priority is turning public housing around. In many projects over half the families are welfare recipients, and this generates an atmosphere that too often is not conducive to stable families, upward mobility, or even decent housing maintenance.

The principal staff of the Department have been deeply involved in the preparation of the President's welfare reform proposal. I can assure you that we will be working to make the pieces fit together better.

We appreciate that Congress has given HUD some important tools to enhance the welfare to work transition. Our Jobs for Residents program is intended to transform the Section 3 mandate for Public Housing Authorities (PHAs) into a program that will generate jobs and transmit work skills to thousands of public housing renters. The Family Self-Sufficiency program, Family Investment Centers, Economic Development Centers, child care funding, and service coordinator funding constitute a carefully crafted continuum of support that public housing authorities can use to help develop the human potential of the families who presently depend on them for shelter alone.

I have announced a new policy of permitting PHAs to establish a priority for working families for housing assistance within the framework of the basic Federal preferences. This can be an important help to the working poor, and it sends the right message about the importance of work.

The Administration will also request several amendments to permit us, first, to determine in carefully evaluated demonstrations what the long-term Federal cost of earned income disregards and ceiling rents would be, and second, to permit "Entrepreneurial PHAs" to undertake a number of initiatives that can help the households they assist to become self-sufficient.

**Request:**

I would like to know the status of your efforts to improve operations at HUD's Philadelphia Regional Office. You can provide a response on the situation in Philadelphia for the record.

**Response:**

On March 3, 1994, Secretary Cisneros outlined a top-to-bottom reorganization of the HUD's regional and field structure. This reorganization is part of a government-wide reinvention process and will enable HUD to more efficiently carry out its mission to revitalize cities and bring new hope to millions of Americans.

The objective of HUD's reorganization plan is to streamline regional operations into the field structure, eliminate bureaucracy, and improve coordination and service delivery to HUD's customers.

The Department will continue to maintain the existing 81 field offices. However, many of the traditional regional review and management oversight functions will be eliminated, with as much authority and responsibility as possible shifted to the field offices.

Fifty-two HUD offices will be designated as State Offices to ensure the coordination of HUD programs to the states, including the District of Columbia and the Commonwealth of Puerto Rico. These offices will also serve individual communities and surrounding localities. Twenty-nine HUD offices will be designated as Area Offices, to serve individual communities and their surrounding localities.

The position of Secretary's Representative will be established in the new organizational structure. There will be 10 groupings of Area and State Offices that will be coordinated by the Secretary's Representatives.

In the new field structure, the groupings of states served by each Secretary's Representative are named after their geographic regions, both for greater clarity and to underscore the end to HUD's previous system of regional administration. The Philadelphia Regional Office geographic area is now the Mid-Atlantic.



The State Offices for the Mid-Atlantic Area are as follows:

PENNSYLVANIA:	Philadelphia	VIRGINIA:	Richmond
MARYLAND	Baltimore	DELAWARE:	Wilmington
SOUTH CAROLINA:	Charleston		Washington, D.C.

In addition, there will be one Area Office in the Mid-Atlantic Area in Pittsburgh, Pennsylvania.

An Office Coordinator position will be created in each of the State and Area Offices. The State/Area Coordinator will report to the Secretary's Representative within the geographic grouping. They will coordinate the accomplishment of management and program priorities within their respective offices and make sure HUD customers are well served by the Department.

4. Question: Is the Department taking any steps to ensure that small States and small public housing agencies are not unfairly affected by reductions in funding for HUD programs?

Answer: The major PIH funding programs -- PFS subsidy and Modernization -- distribute funds on the basis of factors that do not affect the proportion of funds small States or small PHAs would receive in relation to larger States and PHAs. If overall funding is decreased for these programs, the funding of small States and of small public housing agencies will be decreased proportionately. An individual small (or large) PHA might have its funds change more than the national average if its formula funding characteristics change more than average. But the overall funding of smaller PHAs and of smaller States should closely follow the trends of overall program funding.

5. Question: Housing Officials in Delaware have expressed concern over the proposed reduction in funding for the HOME Program and assisted housing. Why were these programs selected for the cuts?

Answer: As you are aware, the HOME program got off to a slow start, not only because it was new, but largely due to the complexity of the program. The use of the funds in the program has not been as rapid as it should be. The Congress and the Department have worked to simplify the program, and through several statutory and regulatory changes, it has been made more workable. We are beginning to see increased usage of program funds, and expect that in future years the program's performance will warrant an increased funding level.

6. Q. Will the proposed additional funding for homeless programs in FY 1995 allow state and local flexibility to provide emergency shelter and transitional housing assistance?

A. The proposed additional funding will allow states and localities to fill gaps in locally-devised continuum of care systems. If there are emergency shelter or transitional housing gaps in the local system, the additional funds could be used to fill those gaps.

QUESTIONS FROM REPUBLICAN MEMBERS TO  
HON. CISNEROS AND HIS RESPONSES

PENSION FUNDS

Republican Questions

1. The Administration is proposing an increase in the Pension Fund program, entitled the Community Investment Demonstration Program that provides Section 8 project-based assistance to multifamily rehabilitation developments undertaken by eligible pension funds. In 1994, HUD requested \$100 million in Section 8 authorization. In 1995, the Administration is requesting \$514 million.

*As a point of clarification, the Section 8 Community Investment Demonstration allows not only multifamily rehabilitation, but also new construction. The projects will not be developed by pension funds, but rather financed by pension funds.*

1.
  - a. Could the Administration explain when there is a five-fold increase in appropriation request for the Section 8 project-based assistance for participating pension funds? What is the status of the FY '94 program which was funded at \$100 million?

Answer:

Since the Section 8 Community Investment Demonstration was signed into law on October 27, 1993, HUD has received numerous inquiries from Pension Funds, Pension advisors, intermediary organizations, city and state agencies and for-profit and non-profit developers. There is significant appetite for this program. The \$100 million in FY '94 budget authority translates into approximately 1,000 15-year units, 3,000 5-year units or some combination of these figures based on financing requirements. The AFL-CIO Housing Investment Trust alone, without any significant advertising, could utilize 2,000 15-year Section 8 units leveraging another 3,000 new units with total project costs at 1.4 billion.

We expect once the program is operational with final program guidelines there will be significant interest, well beyond the budget authority.

The NOFA was submitted to OMB for review on February 28, 1994. We anticipate approval by OMB in late March or early April and publication of the NOFA in April. HUD will accept applications 30 days after the publication date (May). Preliminary funding awards are expected in the summer.



1.

- b. The AFL-CIO was the only pension fund that expressed an intention to participate in the Section 8 program. Has there been any other serious pension fund interest in the program since the legislation's enactment? As a result of that interest, how many pension funds, besides AFL-CIO, are now participating in the program?

Answer:

Since the program is not yet operational, no pension funds are participating in the program yet. However, we have had expressions of interest from a number of public funds, as well as representatives of private funds. We are also aware of efforts of pension fund advisors and intermediaries to evaluate the program in order to assist their pension fund clients to participate in the program. In addition, affordable housing developers in an effort to attract Section 8 assistance to their communities, are building alliances with pension funds to encourage participation in the program.

1.

- c. What would you see as the barriers to pension fund participation?

Answer:

Barriers to pension fund participation include the size and complexity of affordable housing deals. Pension fund managers are unfamiliar with investing in affordable housing. There is also the perception that affordable housing is "too risky".

The AFL-CIO Housing Investment Trust is uniquely suited to address these issues. Their model of a "trust" or "intermediary" with the expertise to evaluate housing and community development projects is now being studied by other pension funds as a way of participating in this program.

This initiative and the AFL-CIO model will go a long way to break down the barriers to pension fund investment in affordable housing. It will produce concrete examples, quantifiable investment data and serve as an educational tool.

## HOMEOWNERSHIP

Republican Questions

1.
  - c. There are many news reports that boast of the 1993 housing market as the most affordable since 1973. Given the affordability of homes, how does the National Homeownership Trust be effective in a climate where affordable does not appear to be the central issue of homeownership?

Answer:

Reduced interest rates of 1993 have indeed increased affordability. However, certain key sectors of our population, households with very low incomes, families with children, single parent households and minorities, continue to be shut out of the homeownership market. The program barriers to homeownership are the lack of adequate savings for downpayment and closing costs, high home prices, excessive credit debt, insufficient income and high interest rates. Homeownership Trust funds can be used to address many of these barriers.

1.
  - d. There have been experts that testified in the Fall regarding this program stating that "interest-rate" buydowns are ineffective and fail to maximize the taxpayer's investment. What is your analysis of the effectiveness of the "interest-rate buydown"?

Answer:

Interest rate buydowns can be effective tools in increasing affordability, particularly in high interest rate environments. These buydowns do not, however, address other barriers such as the lack of downpayments. The effectiveness of the buydowns varies based on the amount and term of the buydown and the process for administration. We anticipate that buydowns will be structured/tailored to local markets and therefore result in a more effective tool.

1.
  - e. Given that many state housing finance agencies operate similar programs, would HUD consider operating the Trust through the state agencies?

Answer:

HUD has proposed to operate the program through the state housing finance agencies.

2. The Administration's budget proposes a loan limitation level at \$85 billion for the FHA Mutual Mortgage Insurance Fund.
- a. Has HUD met the capital standards set out in the 1992 Housing and community Development Act? If not, what is your assessment of the solvency of the fund, given the Department's inability to meet the capital standards?

Answer: The draft fiscal year 1993 independent actuarial study, performed by Price Waterhouse, indicates that the MMI Fund has exceeded the mandated 1992 capital ratio of 1.25% and that the 2% capital ratio requirement for the year 2000 will be met. The study indicates that FHA's MMI Fund is

- 3.
- a. Given the private sector's willingness to be creative in their design of low/moderate income origination programs, would you comment on whether the role of FHA is diminishing?

Answer:

We do not believe the FHA's role is diminishing. While the private sector is finally beginning to recognize that providing loans and mortgage insurance to the low- and moderate-income market can be good business, they have not embraced this concept as completely as has the Department. Rather, the programs which are being introduced by the private sector are designed to serve the less risky portion of this vast market. FHA, however, has pioneered this market and continues to offer insurance involving more liberal mortgage terms than is otherwise available. The results of this approach is that literally hundreds of thousands of low and moderate income families in this country have a realistic opportunity for homeownership which even the new private sector programs cannot provide.

- 3.
- b. Given this new origination program, would you agree that FHA should be developed for truly the underserved and low income groups that conventional markets fail to pick-up as potential mortgagors?

Answer:

Clearly, the Department's objectives should be to expand homeownership opportunities for these groups. However, the issue is whether it is to be accomplished in a manner that does not burden the taxpayers of this country. By having a strong, competitive FHA that participates in the markets



serving not only low- and moderate-income groups, but the typical American families across the nation, the government can underwrite the risks associated with expanding homeownership opportunities to all groups while at the same time having the beneficiaries of the mortgage insurance support the cost of the programs. FHA has been successfully doing just that for sixty years. Limiting the FHA's ability to compete for the typical American family's mortgage business will eventually result in the government having to increase premiums to unreasonably high levels to maintain actuarial soundness when serving a limited low and moderate income market or begin to subsidize what has historically been a "no cost" program to the taxpayers. We believe either alternative is unacceptable.

3.

- c. How does HUD reconcile the increase in the FHA loan limits in light of the private sector's role in low- and moderate-income origination with programs such as the GE/Fannie Mae 3% program?

Answer:

For FHA to continue to serve low and moderate income markets in a fiscally sound manner requires that we develop initiatives that are broad based and enable the Department to retain sufficient market share of those loans that historically have default rates that generate premium income into the Mutual Mortgage Insurance Fund. By increasing the mortgage limits and raising the base mortgage limit to 95 percent of the existing median house price, not only is FHA expanding the universe of potential mortgagors that can provide positive income into the Fund, it is opening homeownership opportunities to typical American families that do not have the downpayment and/or income and credit to qualify for low downpayment PMI conventional loans.

It must be recognized that FHA serves a broader spectrum of homebuyers than do the private insurers. Assuming a typical homebuyer could qualify for PMI insurance and FHA insurance, the lower premiums on the private side alone will generally result in the prospective mortgagor securing private insurance. We believe that many typical American families who don't qualify or don't want a PMI insured mortgage should have the opportunity to secure FHA insured financing. Making homebuyers that meet acceptable FHA underwriting standards "wait" until they can save a downpayment or receive an increase in income simply because they wish to purchase a home that is less than \$100,000 in value but more than 95 percent of the median house price for the area is a disservice to them, a lost opportunity to FHA's insurance fund and a damper on the economy.

3.

- d. Is it HUD's intention to compete face-to-face with conventional/private mortgage lenders and insurers for the middle-income market?

Answer:

Obviously, where FHA mortgage limits permit, potential homebuyers have a variety of possible financing alternatives which includes FHA. It must be noted however that FHA's upfront mortgage insurance premium and annual premium make FHA insured financing unattractive to typical buyers that can financially qualify for private mortgage insurance. Increased mortgage limits will not make FHA "competitive" with the PMIs in the market place. Rather, FHA recognizes that certain financial advantages exist to homebuyers that can qualify for private mortgage insurance and that the agency is not in a position to duplicate them. That is not to say, however, that FHA should be precluded from such markets. Rather FHA is seeking to provide insured financing to typical American families who meet its underwriting standards. Such loans historically have assisted in the capitalization of the MMIF and should play a major role in assisting the Department to achieve its statutory capitalization requirement.

In light of the questionability of the fund's soundness, the Administration proposes to implement a "no downpayment" program for those potential homeowners who are at or below 115% of area media income.

- a. If the acceptable theory that homeowners must establish equity in the house through downpayments, or the like, is correct, what type of equity would this program create for the potential homeowner?

Answer:

Initially, it is appropriate to point out that the "cash investment" theory of creating motivating interest in homeownership is by no means a cardinal rule. The fact that the PMIs are now offering 97 percent loans indicates that insuring such loans with minimum down payments can be profitable. Moreover, since the typical real estate sales commission is six to seven percent, the mortgagors obtaining 97 percent loans, whether insured by FHA or a private insurer, have no equity whatsoever in their properties and probably won't for several years.

Recognizing that FHA and the PMI are insuring loans that have a negative equity position, the insurance program that

FHA is seeking only takes the concept slightly further. Instead of 97% loans, FHA is seeking the authority to insure 100% loans with the closing costs being paid by or on behalf of the mortgagor. Clearly, some will perceive this as taking on substantially more risk. We do not for several reasons. First, the legislation will limit the availability of the program to areas designated as Revitalization areas. We expect that these areas will have enhanced governmental supportive services and be targeted by the local community for revitalization. Moreover, we have included a statutory requirement that each mortgagor receive indepth pre-purchase counseling as a condition of obtaining the mortgage. Finally, the mortgagor must meet the income underwriting standards utilized in FHA's 203(b) program.

Counseling, supportive services and quality underwriting should result in the approval of mortgagors that understand the obligations they are undertaking and have demonstrated the financial capacity to meet the responsibilities of homeownership. We believe this combination will result in a loss rate that will compare very favorably with those experienced under FHA's other unsubsidized single family insurance programs.

4.

- b. Will this program, although at a \$180 million level, put the MMI Fund at risk?

Answer:

This program will be a General Insurance Fund Program. While this program is intended to be operated in a financially responsible manner, it will not be required by statute to be actuarially sound and therefore, can assume more risk in order to serve the social purposes of increasing homeownership opportunities and assisting neighborhood revitalization efforts. The program will not impact on the Mutual Mortgage Insurance Fund.

4.

- c. How much risk is the Department willing to wage in order to implement this homeownership program?

Answer:

It is clear that the program will involve risks greater than those normally assumed under the Section 203(b) program. A limit of 10 percent of the previous year's single family mortgage insurance volume will be placed on the program. Preliminary budget analysis indicates that \$3.6 million in credit subsidy per 5,000 participants would be needed for the FY 1994 book of business and \$2.7 million per 5,000



participants for the subsequent years' books of business. We anticipate a volume of 20,000 to 30,000 loans per year once the program is established with a lighter volume the initial year as the program becomes operational.

5. The Administration announced plans to facilitate housing for the homeless. One such program is to sell properties in the single family property disposition portfolio at a 10% discount.
  - a. Given that these sales are generally at a loss to the Fund, at any rate, what is the basis for a 10% reduction?

Answer:

Sales of HUD owned properties to homeless providers are managed in the same manner as HUD's sales to other nonprofit and government agencies. Because the Department sells direct to these customers, without using a broker, it can pass on the savings realized from executing these transactions without paying a sales commission or closing costs. Therefore, the sales discount is not considered a subsidy.

This pricing policy towards nonprofits and government agencies has been in effect for over ten years and is referenced in the program regulations at 24 C.F.R. 291.110 (a). It helps expand affordable housing opportunities for the homeless, as well as other lower income buyers, and also helps to revitalize neighborhoods, without having an adverse impact on the mortgage insurance funds.

5.
  - b. Will this program compound losses to the MMI Fund?

Answer:

No. For the reasons described above, the 10% sales discount from fair market value is not considered a subsidy. Very often, the discount makes it financially feasible for a nonprofit or government agency buyer to purchase a HUD owned property. Many of them are located in "hard-to-sell" areas and would not be purchased by these buyers without a significant discount due to the costs they incur for rehabilitation and financing.

5. c. At what risk to the MMI Fund is the Department willing to implement this homelessness program?

Answer:

The discounted sales program, available only to nonprofits and government agencies, is not considered a risk to the MMI Fund. It has a negligible impact on the Fund because it is not a subsidy and because the number of such sales in any given fiscal year are few when compared to the total number of HUD single family sales -- approximately 65,000 per year. Eleven sales to homeless providers have occurred to date during Fiscal Year '94.

5. d. Given the failure to meet capital rate standards, how will this homeless sale program be adverse to meeting the capital rate standard?

Answer:

The program has no impact on HUD's ability to meet the capital rate standards.

6. The Administration is proposing a significant increase in funding for Homeownership Counseling. In fact, the budget indicates an increase from \$12 million in the 1994 to a request for \$50 million in FY 1995. The budget summary also indicates an anticipated increase to 3,100 in approved non-profit, private sector counseling agencies. This is an increase from 750 in 1994.
- a. What is the capacity of the Department to absorb these newly-created HUD approved counseling agencies? In other words, do you think that there would be adequate staffing to meet the challenges of approving this significant increase in counseling groups?

Answer:

HUD has revised its earlier estimate of the number of agencies required to utilize \$50 million of appropriated counseling funds. The Department estimates that it will increase the number of HUD-approved agencies during FY 94 - FY 95 from the current 750 to 1,000. This number of agencies is based upon HUD's intention to fund, in addition to direct counseling services, homeownership advocacy conducted by advocacy groups that will work to increase homeownership opportunities by low-income purchasers.

HUD will direct a substantial portion of the \$50 million to organizations which will engage in homeownership advocacy. The Department expects that individual advocacy grants will be substantially larger than those usually awarded for direct counseling services. The requested appropriation for FY 95 will also enable HUD to award larger counseling grants than those available in the past. Because HUD's grants have tended to be relatively small, for FY 1993 the average grant award for FY 93 was \$11,705, about one-half of the HUD approved counseling agencies do not bother to seek grants. Should the prospects for larger grants improve, it is likely that many of these agencies will apply for grants.



## EMERGENCY HOMEOWNERS' RELIEF ACT

Republican Questions

1. With all due respect to Chairman Gonzalez, the Emergency Homeowners' Relief Act is included in the Housing and Community Development Act of 1994, H.R. 3838. This program will provide emergency assistance, up to one year, with a maximum monthly payment of \$250, to those eligible homeowners (borrowers) who are facing imminent foreclosure based on a significant reduction in income or unemployment.
  - a. I understand that this program updates previous of the Emergency Housing Act of 1975. What was HUD's experience at that time in administering this program?

Answer:

The Department has no experience in this program. Although HUD published implementing regulations on December 30, 1975, at 24 C.F.R. 2700, the level of mortgage delinquency never reached a point that would induce the Secretary to exercise this standby authority.

- Although \$500,000,000 was authorized for this program, money was never appropriated, presumably because the criteria for employing this standby program were never reached (see attached for criteria).
- Authority to insure or make loans under this program expired as of September 30, 1977.

1.
  - b. What are suggestions that you may have to update this program to meet contemporary housing needs?

Answer:

We are very doubtful about the benefit of reviving the Emergency Homeowners' Relief Act. On the one hand implementing this Act would require an appropriation and would entail substantial start-up costs to the Department. Moreover, should an emergency arise, the administrative cost to the Department could be substantial. On the other hand, it has not been demonstrated that assistance along the lines established in the Act would have a significant impact upon an emergency should one arise. Certainly, a full scale analysis (feasibility study) should be conducted prior to implementing this program.

Below are some of the programs weaknesses which should be addressed before any new legislation is passed.

Given the passage of time since its enactment in 1975, the \$250 monthly cap on assistance is probably inadequate and should be reexamined.

The mortgagor eligibility criterion that the mortgagor have a "reasonable prospect" of resuming full payments, etc., is too vague. For this reason, when the Department issued regulations in 1975, it authorized mortgagees to presume that mortgagors met this criterion. Such a presumption, while understandable from a practical standpoint, nullifies the intent of Congress. A updated version of this program should either be silent on reasonable prospects or provide administratively practical guidance for making such determinations.

Section 105, Emergency Relief Loans and Advances, provides HUD coinsurance on assistance made by the mortgagee. Section 106, Emergency Mortgage Relief Payments, provides for HUD making payments directly to the mortgagee on the mortgagor's behalf. The Secretary should have the flexibility to implement one or the other or both of these sections.

The Department currently has a major relief program, the Assignment Program that provides even greater assistance to homeowners. Also, other State and Federal agencies, such as Pennsylvania and the Department of Veterans Affairs, also provide assistance to mortgagors. New legislation should limit mortgagors to receiving assistance under only one of these programs.

Attachment

## ATTACHMENT

## PART 2700 -- Emergency Homeowners' Relief Program

## Regulation 2700.10, Determination of emergency criteria:

1. the Department would have to construct a nationwide composite index of delinquencies of 60 days or more (including loans in the process of foreclosure) for mortgage loans on one-to-four-family dwellings;
2. a quarterly index was to be based on a weighted average of delinquency rates published in conjunction with the Department of Veterans Affairs, the National Association of Mutual Savings Banks, the Mortgage Bankers Association of America, the American Life Insurance Association, and the U. S. League of Savings Associations. The rates were to be weighted according to the percentage of the long-term mortgage loans, held by the respective lender group represented by the data in each individual series at the end of each quarter; and
3. the composite rate of delinquencies was to reach 1.20 percent. If the composite rate of delinquencies reached 1.20 percent, the Secretary, after consulting with the Federal agencies that regulate institutions, was to make a finding and determination as to whether the Act should be implemented. If the Secretary determined not to implement the Act, and if the composite rate of delinquencies continued at a level of 1.20 percent or above, the Secretary had to continue to consult with other agencies and issue such a finding and determination at the end of each 30 days period during which the rate is at or above the 1.20 percent level.



**HOMELESSNESS**Republican Question

A provision in H.R. 3400 encouraged HUD to work with the Department of Health and Human Services (HHS) to use subsidies currently used for welfare hotels to be used for multifamily housing. These subsidies would help with the multifamily property disposition crisis, yet the funds remain unspent. HUD has the authority to utilize these funds, yet does not use them. What action does HUD intend to take regarding these funds?

**Answer:**

We have been working with Wendy Adler of the House Government Operations Housing Subcommittee and consultants working with the Committee to facilitate use of welfare hotel subsidies in disposing of HUD-owned properties. In 1993, we provided lists of such properties located in areas where such subsidies are available. We found, however, that HUD has few properties in these areas at this time. We agree that welfare hotel subsidies can be a valuable source of rental income to purchasers, particularly non-profit or public sector organizations, of HUD's multifamily properties and will continue to work cooperatively with the Committee and HHS.

Questions from House Subcommittee on Housing and Community  
Development

Public Housing

Question 1: Do you believe the one-for-one replacement rule, required when public housing is demolished, is working effectively? If not, do you have any suggestions for changing it in such a way that the competing interests of housing families in decent, safe and sanitary conditions can be balanced against the need to maintain permanent and affordable housing for extremely low income families?

Answer 1: We strongly support the concept of one-for-one replacement housing whenever an HA demolishes or disposes of dwelling units. However, we believe that the current requirements have caused serious problems particularly for some of our large HAs. It is the Department's position that the requirements per se are not the problem, but rather our strict interpretation of the statute and the regulations which have created obstructions.

In particular, the current requirement that the replacement housing plan be approved by the unit of general local government in which the development is located has caused problems and delays. Most HAs have indicated that obtaining approval by the City Council or Board of Alderman is difficult and complex. These same HAs have urged the Department to allow replacement housing plan approval by the chief executive officer, who is likely to be the Mayor. The final demolition/disposition regulations will require that either the unit of local government or the chief executive officer may approve the replacement housing plan. This should provide the flexibility that is needed to meet this requirement and eliminate the long delays caused by working with units of local government.

In addition, the requirement that HAs meet the Department's site and neighborhood standards when applying for approval of demolition or disposition has been an onerous one. It is anticipated that the final demolition/disposition regulations will allow HAs, that are proposing to use public housing development or Section 8 assistance as replacement housing, to address site and neighborhood standards at a later date as required by either public housing or Section 8 program requirements.

The Department has recommended the following legislative changes in the requirements for severely distressed HAs to allow:

- o HAs that propose to demolish units and build or rehabilitate replacement units on-site or in the same neighborhood to do so without meeting the site and neighborhood standards

regarding minority and low-income concentration, as long as the HA replaces with fewer units than the number to be demolished;

- o HAs to replace not more than one-third of the units proposed for demolition or disposition with tenant-based 5-year Section 8 certificates, regardless of the size of the demolition or disposition proposed; and
- o HAs to locate all or a portion of the replacement housing outside of the jurisdiction of the original HA under certain circumstances.



Questions from House Subcommittee on  
Housing and Community Development

Public Housing

Question 2: There are approximately 105 troubled public housing authorities in the United States. Many of these PHAs have been on HUD's troubled PHA list for years. It is not coincidental that much of the identified severely distressed public housing is managed by troubled PHAs and is in blighted, urban areas. Furthermore, most of the unspent modernization pipeline dollars are committed to troubled PHAs.

- a. First, exactly how much unspent funds remain in the pipeline?
- b. Second, what is HUD doing:
  - 1) to get PHAs to take seriously their responsibility to ask for and to spend modernization money to exact repairs?
  - 2) to more aggressively enforce its rules and regulations when PHAs continue to fail to provide decent, safe and sanitary housing?
  - 3) to focus its efforts upon troubled PHAs which need significant technical assistance?

Answer 2a: The Department considers "pipeline" and "backlog" to be separate amounts. Pipeline is the amount of previously approved, but unobligated funds, as shown in the following chart. Backlog is the amount of previously approved, but unobligated funds which are three years old or older. Therefore, as of 9/30/93, of the total pipeline of \$6.3 billion, \$434.5 million is considered backlog.

	Unobligated Funds <u>As of 9/30/93 a/</u> (Dollars in Millions)
FY 1990 and Prior Years	\$ 434.5
FY 1991	<u>\$ 919.7</u>
Subtotal (FY 1991 and Prior Years)	\$1,354.2
FY 1992 - CIAP	\$ 297.0
FY 1992 - CGP	<u>\$1,712.2 b/</u>
Subtotal (FY 92 and Prior Years)	\$3,363.4
FY 1993 - CIAP	\$ 329.2 c/
FY 1993 - CGP	<u>\$2,592.9 c/</u>
Grand Total	\$6,285.5

a/ From official Departmental automated reports (MORS), summarizing HA progress reports as of 9/30/93.

- b/ This reflects the amount of funds not disbursed by the Department and, therefore, not expended by HAS as of 10/16/93. The real unobligated amount would be lower than the unexpended amount. The Department does not have 9/30/93 data for fund obligations for FY 1992 CGP funds, but will have data shortly for the period ending 12/31/93. Therefore, the unobligated amount is overstated at this point. A more accurate figure, based on a modification of the requisition system (Line of Credit Control System/Voice Response System), is expected to be available shortly.
- c/ These funds were approved in the last quarter of FY 1993 (7/1-9/30/93).

It should be noted that during the twelve-month period of 10/1/92 - 9/30/93, \$2.3 billion was obligated by HAS.

Answer 2b1: In the last year, the Department has taken a number of steps to reduce both the pipeline and the backlog, as follows:

1. Regular meetings with industry groups to solicit ideas for expediting the pipeline.
2. Memoranda and conference calls to HUD Field staff to emphasize the importance of reducing the pipeline and providing technical assistance to those HAS with the largest pipelines.
3. Issuance of HUD Notices to HAS to emphasize the importance of getting the work done in a timely manner and to convey revised program procedures to simplify funding approval and implementation.
4. Issuance of a revised rule for the Comprehensive Improvement Assistance Program (CIAP) to simplify program requirements for HAS with fewer than 250 units.
5. Publication of a proposed rule for the Comprehensive Grant Program (CGP) to expedite funding approval and program implementation for HAS with 250 or more units. Published March 8, 1994, this rule is the result of a collaborative effort between the Department and the industry groups to streamline the CGP and make the funds available earlier in the FY. The Department expects to continue this productive working relationship during consideration of the public comments and drafting of the final rule.
6. Provision to HAS of access to FY 1993 CGP funds approximately 5 months earlier than in previous years, as a result of the CGP formula approach and HUD's accelerated processing.

7. Provision of increased oversight by HUD through establishment of the Headquarters' Office of Severely Distressed and Troubled Housing Recovery; and contracting with the U.S. Army Corps of Engineers to inspect work in progress.

Since almost 90 percent of the Modernization funding is now provided under the CGP, the basic philosophy of the CGP relating to local flexibility and accountability is beginning to have a positive impact on the pipeline, as follows:

1. More stable and predictable funding under the formula approach is contributing to improved work planning and execution, as well as greater HA staff capability;
2. HA ability to shift work items from years two through five of the Five-Year Action Plan to year one, when a problem is encountered, provides a mechanism for fund obligation to continue more quickly; and
3. Allowing CGP agencies to proceed with various contracting actions without prior HUD approval removes a major source of delay during implementation. These contracting actions include: architectural/engineering (A/E) and other professional services contracts before award; construction solicitations before issuance; and contract modifications before issuance. This policy applies to both CGP programs and CIAP programs being administered by CGP agencies.

The Department would like to emphasize its continued commitment to reducing the modernization pipeline. Toward that end, the Department has entered into a Performance Agreement with President Clinton. One item in this Performance Agreement relates to the modernization pipeline. It establishes the goal of reducing, by September 30, 1994, the unobligated and unexpended balances of FY 1992 modernization funds to 30 percent and 55 percent, respectively.

Answer 2b2: The Department believes it has adequate sanctions in place, such as issuance of a Limited Denial of Participation or, in more serious cases, debarment from the program. In the most extreme cases petitioning the court for a receiver or declaring breach are available sanctions. However, what is really needed is to more aggressively pursue cases like this when they initially surface. Issuances have been sent to field offices reminding them of this tool but clearly more needs to be done. In our proposed PHA Monitoring Handbook, and our training course planned for the fourth quarter of this fiscal year, this will again be stressed.



Answer 2b3: The Office of Public and Indian Housing has implemented a risk management approach to monitoring PHAs. Out of necessity, the Department must direct its limited staffing resources to those PHAs most in need of review, monitoring and technical assistance. In addition, Section 113 of the HCD of 1992 permits the use of funds for technical assistance to troubled PHAs.

In addition, the Office of Severely Distressed and Troubled Housing Recovery has been established to focus technical assistance efforts of troubled (and near-troubled) PHAs. For a status of the activities undertaken by this office, see the response to Question 8 (Public Housing).

Questions from House Subcommittee on  
Housing and Community Development

Public Housing

Question 3: In what ways can HUD micromanagement of PHAs be eliminated? In particular, can high performing PHAs be left to act more independently?

Answer 3: HUD should never have been in the business of micromanaging PHAs. In those cases where Field Offices may have been overly involved in the management of PHAs, scarce staffing resources and the risk management approach to reviewing should minimize, if not eliminate, this concern.

The Department agrees completely that high performing PHAs should be allowed to act far more independently. To that end the Assistant Secretary for Public and Indian Housing has established a High Performer PHA Working Group. The purpose of the Working Group is to look at what the relationship should be between HUD and high performing PHAs. The group will present the Assistant Secretary with a report containing a number of recommendations for providing high performing PHAs with more flexibility and independence.

Questions from House Subcommittee on Housing and Community  
Development

Public Housing

Question 4: Your budget suggests that Section 18 of the U.S. Housing Act, which governs demolition and one-for-one replacement, is flexible to the extent it allows for leveraged financing of replacement housing. Please explain. Is there any move to change site and neighborhood standards so that neighborhoods are maintained rather than broken up?

Answer 4: The Office of General Counsel has opined that the use of available project-based assistance provided through section 42 of the Internal Revenue Service Code, the Low-Income Housing Tax Credit, is an acceptable source of replacement housing. The Office of General Counsel is looking into this matter and it will be addressed in the final demolition/disposition rule. Since this is a relatively new idea, no HA has successfully utilized it for replacement housing.

The current site and neighborhood standards for new construction public housing and new construction Section 8 certificates require that HAs build outside of areas concentrated with minorities or low-income households. However, the standards do permit the Assistant Secretary to allow HAs to build in areas of minority concentration where it can be demonstrated that either: (a) the public housing is necessary to meet overriding needs; or (b) there are sufficient comparable housing opportunities outside of the area of minority concentration. HAs also are prohibited from building in a racially mixed area if the proposed public housing would cause a significant increase in the proportion of minority to non-minority residents. In the last few years, at least four HAs have met the exception of overriding need.

At the request of the Secretary, staff is reviewing the entire site and neighborhood standards issue. Certainly, a major consideration is whether the Department should allow building replacement housing in areas of minority concentration. After this review has been completed, the Department will be in a position to make appropriate recommendations for policy changes.



Questions from House Subcommittee on  
Housing and Community Development

Public Housing

Question 5: Section 113 of the 1992 Housing and Community Development Act requires HUD to conduct management assessments of each troubled PHA and to provide technical assistance to eliminate the deficiencies found.

- a) Has HUD conducted these assessments? If so, what were the results?
- b) From which budget does HUD intend to get the money to eliminate the deficiencies, particularly in light of the fact that funding from modernization, operating subsidy and the severely distressed public housing program was cut?

Answer 5: a) HUD has not conducted the assessments. However, the Department will be awarding a contract(s) no later than June 1, 1994.

b) The Department must still rely, to the extent possible, on these resources. The only other source of funding to correct deficiencies at troubled PHAs is via § 113. It should be noted that it is unlikely that HUD will ever eliminate all deficiencies at troubled PHAs.

## Subcommittee on Housing and Community Development

## Questions from Public Housing

Question 6: Is the Public Housing Management Assessment Program (PHMAP) an effective measuring stick for judging the performance of a PHA? If not, how can it be changed in a comprehensive fashion?

Answer 6: Yes, the Department deems the PHMAP to be an effective way for judging the management performance of a PHA. The Department implemented PHMAP through an interim rule, published on January 17, 1992, in the Federal Register in order for the Department and PHAs to gain some experience in the actual execution of the program.

PHMAP established for the first time an objective system of measuring PHA performance using standard criteria for all PHAs. This enables HUD and PHAs to compare the management performance of PHAs. In addition, PHAs can use the PHMAP to conduct internal audits of their operations and correct identified deficiencies. The results of the internal audit can be used by the PHA's Board of Commissioners and Executive Director, resident organizations and the community to understand more comprehensively the PHA's operations.

At present, the PHMAP represents an initial formulation subject to continued development and modification as may be warranted by experience and consultation between the Department, PHAs, residents, public housing industry groups, and other interested parties.

The Department is in the process of modifying the program and just completed a series of three meetings with representatives from all size troubled and well-managed PHAs, residents, public housing industry groups, HUD field staff and private managers. The revised PHMAP will incorporate many of the recommendations, based on the experience of PHMAP's initial implementation, that resulted from these meetings.

## Questions from Subcommittee on Housing and Community Development

## Public Housing

Question 7: Current Housing Quality Standards (HQS) require numerous inspections of properties regardless of whether inspections have already occurred on the local level? Are these inspections and reinspections, which can present great problems to the Housing Authority, a good use of local field office personnel especially if the local and state governments already prescribe criteria which the housing must meet?

Answer 7: Assuming that the question relates to housing quality inspections in the Section 8 certificate and voucher programs, the program rules require an initial inspection by the public housing agency before assistance is provided on behalf of the assisted tenant, and annual inspections thereafter to ensure that the subsidy is paid only for units which provide safe and sanitary housing. If the inspection reveals violations, the Housing agency must reinspect to be sure that the violation is corrected, and that subsidies are not paid for substandard housing. HUD advises housing agencies to perform thorough inspections, so that other violations are not discovered when the inspector returns to verify that repairs have been made. The Department's HQS are utilized because not all jurisdictions have adopted local or state housing codes, because the codes that exist may be much lower (allowing substandard units to be subsidized) or higher (reducing the stock available to low income families), and because rental properties are rarely systematically inspected for local code compliance. With HUD approval, housing agencies may adopt local codes as an alternate to HQS if those codes meet HUD's performance requirements.



## Questions from Subcommittee on Housing and Community Development

### Public Housing

Question 8: What is happening in the Office of Severely Distressed Public Housing? When will it be "up and running?"

Answer 8: This office, which has been established as the Office of Severely Distressed and Troubled Housing Recovery, is in the process of organizing an outstationed staff to be deployed from HUD's State Field Offices for managing troubled agency prevention and recovery strategies that are part of executed corrective agreements with PHAs. Within this office, a smaller Headquarters staff will interact on a cross-cutting basis with PIH program and regulatory offices, as well as outstationed Field staff, in unifying and directing the Department's role, synthesizing training and TA resources, tracking PHMAP and vacancy reduction results, coordinating the implementation of corrective plans, and monitoring progress on a national basis. As a Secretarial priority, the Department is moving forward as quickly as possible to fully staff this office.

Some positive impacts have already been noted. For example, in Philadelphia, technical assistance provided by "recovery teams" organized by HUD to provide guidance to the PHA can be linked to recent improvement in the PHA's management capabilities, specifically in the areas of maintenance, vacancy reduction, and resident relations. HUD and the PHA have entered into a partnership for the purpose of turning around that distressed agency, including development of a two-year "corrective action plan." HUD expects Philadelphia to be a model for recovery partnerships it will be developing in other communities in cooperation with the PHA, resident leadership, and the community at large.

In the midst of this organizational restructuring, HUD, through its Office of Severely Distressed and Troubled Housing Recovery, has allocated \$1.1 billion in grant money under the Urban Revitalization Demonstration Program for large PHAs to turn around their most distressed developments.

## MULTIFAMILY PROPERTY DISPOSITION

Republican Questions

1.

- a. Could you please tell the Subcommittee HUD's position as to the multifamily housing provisions suggested in H.R. 3838, the recently-introduced 1995 Reauthorization bill, H.R. 3400, legislation which included the House Banking Committee's proposal on multifamily property disposition, and S. 1299, the Senate-passed version of your proposed Housing and Community Development Act of 1993, which included a different proposal regarding multifamily property disposition?

Answer: In presenting its reform initiative for the property disposition program, the Department observed the following principles:

- Private ownership is preferable to government ownership (HUD is not a good landlord).
- HUD should preserve the vast majority of subsidized rental housing as affordable housing for low and moderate income use.
- The Department should protect tenants under existing contracts, but the HUD unsubsidized inventory should not be used to develop new affordable units.
- HUD should ensure that the insurance fund is replenished.
- The HUD-owned inventory must be reduced to free up staff for other asset management and default prevention tasks.
- Flexibility is necessary to pursue successful disposition at the local level.

At the current time, HUD is working closely with both the House and Senate Subcommittees to finalize property disposition legislation which embodies these principles.

2. Each of these bills contemplate the use of rental restrictions on unsubsidized housing developments. Will this provision impede HUD from selling these properties? If so, can the rent restrictions be crafted in such a way that disposition is not impeded and at the same time protect existing residents?

Answer:

Any meaningful rent restriction will reduce price, and to a degree "impede" selling property. It is important to realize however, that holding property in inventory also reduces the net proceeds to HUD, since HUD has holding costs on its inventory. That is why HUD sought additional flexibility to use rent restrictions where feasible and necessary in unsubsidized developments to attain levels of affordability for specific tenants. Where tenants need assistance, and Section 8 is in short supply or where rent restrictions make more sense, HUD could then sell property using this method instead of having the property trapped in the inventory, building up holding costs, because there was no effective way of assisting tenants.

While HUD's overall approach was to acknowledge that HUD owned property could not remain a vehicle to expand the supply of affordable housing, it wanted the flexibility to address special hardship cases either with Section 8 or with rent restrictions.

H.R. 3838, however, combined the concept of rent restrictions with a program to expand the stock of affordable housing through property disposition. All units in unsubsidized property would be converted to affordable units, either at low income or very low income levels. HUD finds this concept difficult for several reasons.

This discounting of sales prices necessary to make the units affordable at those income levels becomes a cost of doing business under the unsubsidized insurance programs and feeds into the calculation of losses for the purpose of establishing credit subsidy amounts necessary to write new insurance. Therefore, the new approach will increase the credit subsidy cost and limit the ability, or make higher appropriations necessary to make multifamily insurance available.

Second, the imposition of affordability requirements on disposition which aren't in the insurance program creates a dichotomy which makes it harder to have a strong default prevention/foreclosure policy. Owners who default are in a very strong position to negotiate for forbearance or relief rather than foreclosure since they can show that the cost of



HUD taking the asset away from them is very great. These costs are not just the distress sale aspects resulting from a foreclosure or real estate owned sale, which are common to any lender, but the additional discounts which must be absorbed to assure affordability as part of the distress sale. As a result, HUD will be less likely to be able to enforce mortgage terms, including both habitability and debt collection, and act as a responsible lender in its insured programs. This means that the impact of the legislation is not just on the owned property and foreclosure pipeline, but on the 2400 held mortgages and marginally performing insured mortgages as well.

The approach in H.R. 3838 will lead to a slower and more complicated disposition program, more economic infeasibility and demolition of formerly subsidized housing than HUD's proposed approach. For a 100 unit unsubsidized property, with no project based assistance, 40 percent of the units must now be affordable at 30 percent of 50 percent of the median income. Feasibility of the property depends on the level of rehabilitation needed, the market rent levels in the area, and the ability to obtain market rents or maximum rent restricted rents on 60 percent of the units in a property which is 40 percent very low income. In all three cases, the legislation adds two more rent considerations, that any preexisting very low income tenants paying less than 30 percent of income for rent will have increases to phased in over three years, and a restriction that any unassisted preexisting tenant may not pay more than 30 percent of income as long as they remain very low-income. While this would not affect property that had 100 percent assistance prior to sale, for partially assisted property it would raise the number of rent formulas to five, in addition to market rent issues. For formerly unassisted property there are four formal rent limitations, as well as market rent feasibility. Because the effect of the rent restriction is to lower potential income, there will inevitably be more property which it is infeasible to rehabilitate in the private sector, and more property will be demolished.

The legislation will lead to unintended results because of the distressed nature of the inventory. Property will be harder to process for sale, harder to sell, in more cases will be infeasible to sell with purchasers doing repairs. While demolition of property would surely be an unintended result of the legislation, the prescriptive nature of the legislation seems to leave no room for lifting the requirements in order to allow market rate renovations.

For these reasons, the Department sees the broader approach in H.R. 3838 as less feasible than its proposed discretionary approach.

3. How can you assure Congress that if we make the disposition account a mandatory rather than discretionary expenditure the budget will not balloon out of control?

Answer: The property disposition program is subject to authorizing legislation mandating the effective subsidization of certain rental units. The mandate exists whether or not discretionary funding is available, and therefore HUD pays one way or another--either through appropriations of Section 8 assistance, for example, or through costs incurred by the General Insurance fund.

The proposal to establish the mandatory reflects these special requirements. HUD could also propose time and project limits on these expenditures.

Questions from House Subcommittee on Housing and Community  
Development

Rent Reform

Question 1: The legislation you sent to Congress last Spring included several provisions to reform public housing in the way residents are charged rent. As you know, the current public housing rent policy works against an employed resident because as the resident's income increases, the rent increases. Comment on how best to implement rent reform for residents who work.

Answer 1: The most cost-effective ways are to target rent reform upon 1) residents who increase their income by working, by means of income disallowances for newly employed workers, and 2) residents (typically workers) paying the most rent in their project, by means of bedroom-adjusted, project-level rent ceilings based upon the rental value of a project or group of comparable projects. Alternative methods of rent reform, such as an across-the-board reduction in the rental rate of earned income, would have a considerable initial cost in foregone rental income and would not be as targeted on the actual rental value received by working residents or on the special circumstances of the newly employed.

Question 2: Representative Knollenberg introduced H.R. 2957 last year. The legislation grants PHAs several options to structure rent payments for residents who work, including establishing ceiling rents, excluding FICA and income taxes from calculating resident income, freezing income at the amount required at initial occupancy, excluding from income calculation the increased income, and creating a rent demonstration project. Do you have additional suggestions for reforming the current HUD policy regarding rent payments by public housing residents?

Answer 2: Although the unfair rental burden on the income of second wage earners might be reduced by the above reforms, a special disallowance for certain types of secondary wage income (especially from new wage earners) might be extremely equitable and not costly in terms of foregone rent. Encouraging family members to pool earnings and to conserve housing costs is important to welfare reform efforts, of which public housing rent reform is a part. For any rent demonstration, it might be worth testing measures of parental performance (such as children's school attendance) as a basis for rental incentives in addition to earnings performance. Such non-earning incentives, however, might have to be funded from overall welfare reform funding.



Questions from House Subcommittee on Housing and Community  
Development

Public Housing Development

Question 1: An area which needs substantial reform is the development of new public housing, which is a lengthy and cumbersome process. Does HUD have any suggestions for reforming the current development regulations so that there is less micro-management by Washington and more responsibility placed on state and local bodies?

Answer 1: A Working Group, comprised of HUD staff and industry representatives has been convened for the purpose of entirely redesigning the public housing development process to help housing agencies develop low-income housing that would reflect their local communities better and enable them to exercise more control over design, amenities, costs, and planning. A proposed rule has been drafted and publication is expected for comment this Spring.

Question 2: Should existing HUD regulations regarding development of new public housing be eliminated entirely? If not, under what circumstances should HUD be involved in the process?

Answer 2: The public housing development regulation is in the process of being redesigned; it should not be eliminated. HUD's involvement in the process consists of ensuring that PHAs have the support and technical assistance they need to accomplish their mission to provide decent housing for low-income families; and of ensuring that PHAs and localities do not engage in discriminatory practices nor misappropriate funds provided.

Question 3: Are current total development costs (TDCs) sufficient for building sustainable public housing?

Answer 3: The Department is assembling a Working Group consisting of HUD staff and PHAs representing industry groups to examine the Department's procedures for implementing Section 6(b) of the USHA.

## Questions from House Subcommittee and Community Development

## Project Safe Home

Question 1a: What were previous barriers to cooperation between the law enforcement agencies that has now been resolved with the "unveiling" of this program?

Answer 1a: The primary component of Operation Safe Home has been its educational and awareness element. The Office of Inspector General (OIG) has been meeting with the Federal law enforcement community throughout the country and has shared with them information pertaining to the environment of violence which has gripped public housing developments. Analysis has shown that the incidents of violence in public housing is far greater than in the general community. The United States Attorney, the Federal Bureau of Investigation, the Bureau of Alcohol, Tobacco and Firearms and the Drug Enforcement Administration with the housing focus facilitated by OIG will now dedicate its resources to building safer neighborhoods. Where the other agencies' missions involved targeting drugs, guns or gangs, OIG is the common denominator with a primary concern for public housing.

By way of example, the DEA in New Haven had been working on a lengthy task force operation without the realization that the impacted area was dominated by public housing. With the knowledge brought by OIG, the enforcement efforts also included community enhancements such as physical improvements through environmental design and educational programs within the framework of public housing and with the assistance of the public housing authority and HUD. Additionally, during the development of the Safe Home initiative it was learned that various federal law enforcement agencies had similar but unconnected operations in the same public housing neighborhoods. The Safe Home Program allowed for the focus of existent efforts throughout the law enforcement community. While cooperation has existed, a common focus has been placed on public and assisted housing.

Question 1b: What is your opinion of the Department's role in Witness Protection under Project Safe Home?

Answer 1b: Currently the U.S. Department of Justice under the U.S. Marshal's Office, operates a Witness Protection Program. Witnesses who cooperate with a federal case are provided short-term housing and other aspects of "protection" during the period of the witness's cooperation, and after the case is concluded, a new identity and assistance in relocating to a different part of the country to reduce any opportunities for retaliation.

Local and federal law enforcement agencies have identified public housing residents who could serve as federal witnesses for the prosecution in drug and violent crime cases, but who are reluctant to assist because of fear of retribution. Many residents approached for cooperation have expressed reluctance to

completely remove themselves from the local community as would be required in the established Witness Protection Program. But if provided short-term or local relocation, the public housing resident might be willing to cooperate.

To encourage the cooperation of public housing residents as witnesses for drug and violent crime prosecutions, the Department is proposing a series of regulatory and funding initiatives to encourage public housing residents to serve as witnesses for the prosecution in violent crime cases. HUD proposes the program to be "Witness Relocation" rather than witness "protection", offering to relocate a public housing resident from a public housing unit managed by one authority, to another public housing unit within the same authority; to a public housing unit at an adjacent authority, or to provide the witness a Section 8 certificate allowing them to choose their relocation.

All of these options are currently available to public housing authorities within the current program regulations. To encourage housing authorities to use the existing mechanisms, the Department is developing a notice outlining the procedures available to a housing authority for the three options. The option of providing a Section 8 certificate to a public housing resident depends on the Section 8 certificate resources of the housing authority, and its ability to "over issue" certificates based on the level of resources at the housing authority.

In the event a housing authority does not have the resources to allow it to "over issue", the Department does not want to prevent an available public housing resident from participating as a witness because a Section 8 certificate is not available. To preclude this, the Department proposes to set-aside \$5 million to fund approximately 140 Section 8 certificates, to be available to housing authorities throughout the U.S., if and when they need additional certificate resources. The Department will develop a notice outlining the policies and procedures necessary for a housing authority to complete to receive an additional certificate to be awarded to the participating resident.

The Department's opinion is that the majority of housing authorities willing to assist local and federal prosecution cases by relocating public housing witnesses have the necessary resources and will not be relying on the national pool of certificates. Because most relocation cases will be handled locally, and because confidentiality is important, the Department will not be able to closely monitor or measure resident participation in any Witness Relocation program.



QUESTIONS FROM THE HOUSE HOUSING SUBCOMMITTEE HEARING ON  
FHEO ECONOMIC OPPORTUNITY CENTERS

1. What are your goals and objectives for the Economic Opportunity Centers?

The objective of the Economic Opportunity Centers is to provide services necessary to link low income residents with jobs generated by HUD-assisted projects. These Centers will provide job-linkage services for both residents and employers. Eligible residents include public housing residents, Section 8 housing assistance tenants, homeless persons, and other low income residents of HUD-assisted neighborhoods. Potential employers include, but are not limited to: public housing and community development agencies, construction contractors, suppliers and developers.

The scope of services to be provided at these Centers cover both employment and business development. The Centers will include the on-site delivery of services, dissemination of information, and provision of referrals. Centralized job information, counseling and case management will be available. Trainee support via child care, transportation, special services and stipends are eligible expenses. Available information and counseling will include such matters as income support programs and the earned income tax credits. The Centers will provide intake of applications, skills assessment, basic skills preparation and employer linkages. In summary the Centers will assist with job training, employment, contracting, business development and job-related support services.

Economic Opportunity Centers will provide referral services to existing programs and services and may provide space to government agencies, institutions of higher education (including vocational schools), and private/non-profit organizations to provide neighborhood "on-site" services.

Examples of eligible activities are as follows:

- \* Maintaining a "job bank" of positions connected with CDBG, Homeless Assistance, HOME and other Section 3 covered project recipients and contractors, as well as listings of jobs available in the private sector;
- \* Assisting local agencies, construction contractors, contractors associations and joint labor-management committees to develop and fund a Step-Up program;

- \* Individual assessment of job skills and related service needs of residents;
- \* Development of individual training accounts;
- \* Training and funding resident councils/management corporations, neighborhood groups and community-based organizations to provide information to residents and businesses about potential jobs and contracts which may be available on HUD-assisted projects;
- \* Conducting or sponsoring training on job-readiness and job-search skills;
- \* Conducting or sponsoring instruction on the development and management of business enterprises;
- \* Financial "gap" support for establishment or stabilization of micro-enterprises or other businesses which provide economic opportunities to low income persons;
- \* Funding essential training and support services that cannot otherwise be paid; and
- \* Providing space, referral and otherwise providing linkages with Job Training Partnership Act (JTPA) funded training, child care services funded through the Department of Health and Human Services and business development and assistance programs funded through the Small Business Administration and Department of Commerce. In addition space also may be available for services provided by non-profit organizations such as Opportunities Industrialization Centers, the National Urban League, and National Service Program.

2. A \$25 million fund would assist how many public housing agencies?

HUD will request \$25 million for the entire Section 3 effort in FY 1995:

- \* \$17.5 million is proposed for the establishment of Economic Opportunity Centers to be co-located with Family Investment Centers (FICs). Thirty-five of an estimated 75 public housing agencies (PHAs) which received FIC funding in FY 94, will receive an Economic Opportunity Grant of up to \$500,000. The performance period will be 3-5 years.

- \* In addition to the 35 PHAs that will receive an EOC grant, potentially all recipients will benefit from the remaining funds which will be used to proactively implement the Section 3 program nationwide by providing assistance to community development agencies and public and Indian housing agencies. The \$7.5 million will be used to conduct a national program of technical assistance; support Section 3 management; and target related programs and services provided through other Federal agencies and leverage their funds.

3. What would be the determining factor to receive a competitive grant?

Grants will be awarded competitively to PHAs which have FIC grants. Selection factors will include commitment to carrying out a modernization program which provides employment, training and contracting opportunities to public housing residents; demonstrated capacity to assess training and support-service needs; and experience in coordinating and utilizing existing services and funds from public and private sources for public housing residents and other low income persons and small businesses. Applicants will be required to demonstrate working relationships with contractors associations and unions or other building trades associations.



Q. Please Explain the Metropolitan Area-Assisted Housing Program? What do you attempt to accomplish in this Program? What are the factors favoring the three cities used for the pilot program?

A. Under this Metropolitan Area-Wide Strategy demonstration, the Secretary would select a consortia of units of general local government in each of three different metropolitan areas to engage in the marketing of assisted housing on a metropolitan area-wide basis. The consortia would carry out the demonstration through clearinghouses administered by private, nonprofit organizations selected by the consortia. The demonstration could be approved for a period of up to three years for any one metropolitan area.

#### Objectives of the Demonstration

The demonstration would help carry out the Secretary's statutory mandate under the Fair Housing Act to affirmatively further fair housing in all programs of housing and urban development. In addition, the demonstration would fulfill President Clinton's directive in Executive Order 12892 and the accompanying Presidential Memorandum, signed January 16, 1994, to undertake pilot programs, together with other Federal agencies as the Secretary considers appropriate, to further fair housing and to address problems of metropolitan segregation.

The demonstration would promote innovation in addressing racial segregation in the Department's assisted housing programs. It would also advance the Secretary's objective to affirmatively further fair housing, allowing the Department to identify statutory impediments to achieving fair housing and reinvent the way assisted housing programs are marketed.

PHAs in the selected metropolitan areas would be expected to provide incentives to improve the attraction of public housing, achieve desegregation, and affirmatively further fair housing. These measures would be aimed at changing the perception of public housing as the housing of last resort. Instead, they would be intended, in combination with other measures proposed, to make presently minority-dominated public housing a path to social and economic mobility for non-minorities as well.

HUD would require PHAs to focus their comprehensive grant modernization funds on developments that are predominantly minority and where disparities in services and amenities exist.

#### Waiver Authority

The Secretary would be authorized to waive, or specify alternative requirements for, statutes and regulations HUD administers, upon finding that the waiver or alternative requirement (1) is necessary to facilitate the demonstration and (2) would not be inconsistent with the overall purpose of the

statute or regulation affected. However, the Secretary could not waive or specify alternative requirements for statutory requirements related to nondiscrimination, fair housing, labor standards, or the environment.

### Application and Selection

Applicants would be required to demonstrate extensive cooperation by public housing agencies in the metropolitan area and by private owners of federally-insured and federally-assisted housing and State- and locally-assisted housing, by submitting evidence that they are willing to list all vacancies with the clearinghouse and to make selections from tenants referred by the clearinghouse. The Secretary would select among applicants in a manner the Secretary determines to be appropriate, taking into account such factors as (1) the need for a range of metropolitan area sizes, (2) the extent of racial separation, isolation, and segregation in the applicant's metropolitan area, (3) the capacity of the applicant to carry out the demonstration, taking into account the ability of the proposed nonprofit organization selected to administer the clearinghouse, (4) the degree of cooperation and coordination achieved among governments in the metropolitan area and between government and private assisted housing providers, and (5) the potential effects and benefits the variations on regional planning, housing counseling, and other support services and approaches to marketing strategies proposed by each applicant could have on the racial patterns in assisted housing programs if the variations were adopted nationwide.

### Waiting List

The nonprofit organizations administering the clearinghouses would operate a consolidated waiting list for federally-assisted family housing programs in each participating jurisdiction within the selected metropolitan areas, covering all jurisdictions in which the demonstration operates. Elderly housing programs would not be included. Under this system the waiting list would have separate sub-lists for each housing program. All eligible applicants for assisted housing would be on all sub-lists. Housing vacancies in each program would be reported to the clearinghouses by PHAs and other housing providers as they occurred.

The clearinghouses would review eligibility, perform income and employment verification, check previous tenant history, and secure all information necessary to determine Federal and local preferences. First priority within all preference categories would be given to those who wished to select a location where their race is not predominant. No residency preferences would be permitted in the Federal preference categories. Residency preferences could be allowed as part of local, non-Federal preferences after review by the Department to assure that they

were not inconsistent with the demonstration objectives or in possible violation of the Fair Housing Act. Housing providers would carry out tenant suitability screening of all applicants referred from the clearinghouses and could accept or reject them for good cause.

### Information Campaign

The clearinghouses would carry out a broad-based (multimedia) information campaign to reach out to all persons seeking housing within the metropolitan area. No single ethnic or racial group would have an advantage in applying for housing. The clearinghouses would carry out an active fair housing information and support program to encourage applicants to consider choices which would promote fair housing. This would include escort services to neighborhoods where the applicant's race is not predominant, counseling regarding social services available in such neighborhoods, information regarding transportation alternatives, schools and health care, and establishing tenant support groups to overcome the "pioneer" obstacle.

### Progress Reports and Independent Evaluation

The clearinghouse for each demonstration site would be required to submit an annual progress report. In addition, within one year of the conclusion of each demonstration, the Department plans to submit to Congress a report describing the results of the demonstration and any recommendations for legislation.

An independent evaluation would be an important part of the demonstration and would measure the effects of waiving certain Federal requirements and policies. This evaluation is essential to HUD's and the Congress' ability to take the lessons learned from the demonstration and put them to practical use by revising current assisted housing programs or creating new ones.

### Funding

For each of FYs 1995, 1996, and 1997, \$15 million in appropriations would be requested for costs related to regional planning, housing counseling, and administrative costs of the nonprofit organizations selected to carry out the demonstration. In addition, \$9 million from amounts available for public housing modernization would be set aside each year for modernization of public housing of central city PHAs participating in the demonstration. HUD would also set aside sufficient budget authority to support the allocation of up to 10,000 certificates to PHAs in support of the demonstration.



Q'S & A'S FOR HOUSE HOUSING COMMITTEE  
COMMUNITY DEVELOPMENT

LIFT

1. a. Question: What will be qualifying factors in determining an eligible private sector project [under the National Leveraged Investments for Tomorrow (LIFT) Program]?

Answer:

The following are the proposed qualifying factors:

1. the project is proposed to be used in neighborhoods that meets criteria of need including concentrations of persons of low- and moderate-income in census tract; poverty rates in the neighborhood; rates of unemployment in the neighborhood; and such other indicia of need in the neighborhood as the Secretary may deem appropriate.

Eligible private sector projects are expected to be those that are an essential element of, and catalyst for, the comprehensive physical, social, and economic revitalization of the neighborhood; and that build the economic base of the neighborhood through such measures as business expansion and job opportunities and meaningful reinvestment of a share of the profits of a successful project in the neighborhood, including economically empowering neighborhood residents to carry out additional neighborhood development projects.

- b. Question: How is this program effective, given many local and state initiatives addressing similar types of programs? Would this program be an admission that the state/local efforts have been a failure?

Answer: No, this is not an admission that state/local efforts have been a failure. However, except for the Administration's Empowerment Zone program, there is no incentive for cities, communities and neighborhoods to view the solutions in a strategic, comprehensive fashion. If communities and neighborhoods are going to revitalize the neighborhoods of greatest needs, all available resources must be brought to bear in a comprehensive manner. The purpose of LIFT is to provide that incentive. In this manner, LIFT is not a UDAG-type because it does not reward communities for stand-alone projects. LIFT is an incentive for projects that are a catalyst to the revitalization of neighborhoods.

- c. Question: Why would the federal government believe that it could be more effective than local governments regarding private sector investment in neighborhoods?

Answer: LIFT is not seen as competing with local efforts but as a complement to them. LIFT would recognize that neighborhood revitalization can only occur if a community has a comprehensive strategy that realistically coordinates all available resources. LIFT would be an incentive for communities to develop and carry out such strategies. In that regard, current local programs and funds remain an integral part of the LIFT strategy.

## 2. Project-Based Community Development Grants.

- a. Question: In your estimate, what will be the end-result after a 15 year project-based expenditure specifically on these designated communities that receive such a large cash infusion?

Answer: The project-based zone economic revitalization grants will provide for the long-term development of an economic base for the zone or community. By committing funds for housing and business, both key components of building a zone's/community's economic base, strategic plans for zones and communities can establish a vision that is longer than the first year. The end result is a reliable stream of funds that necessary long-term can rely upon for revitalization.

- b. Question: Do we have any guarantees that this program will not be reminiscent of the Model Cities' program of the early 1970's?

Answer: There are several fundamental differences between the Model Cities' program of the early 1970's. First, the Demonstration Cities Act of 1968 only provided annual increments of funds for the period between 1968 and 1972. Model Cities did not look beyond its own program for solutions; the designation of Empowerment Zones and Enterprise Communities is contingent upon the submission of a strategic plan for the comprehensive revitalization of the Zone or Community over a 10 year period of designation. The project-base grants will be just one component of that strategy. Also, unlike the Model Cities program, the EZ/EC process is bringing together all available resources: local, state, federal, private and non-profit and calls for the participation of all of the stakeholders to the process (again unlike Model Cities that tended to pit neighborhoods via CDA's against the city government.)

COLONIAS ASSISTANCE PROGRAM

**Response for the Record to Questions from the House Housing Subcommittee Hearing, February 24, 1994, regarding the Colonias Assistance Program**

**a. What will the \$100 million accomplish?**

The Department recognizes that improving conditions in colonias will lead to the overall better health and stability of the entire border region. While the \$100 million is far from sufficient to solve the problems in all the colonias, it will be seen as a major commitment on the part of the Administration in support of community development and revitalization efforts along the border. This commitment will provide the framework for future substantial efforts and progress by other governmental and non-governmental entities.

The Colonias Assistance Program, funded at \$100 million, is intended to address the severe infrastructure and housing needs of colonia residents in the Southwest Border Region. Funds would be used for the comprehensive, coordinated development of viable communities and economic opportunities for low-income residents.

Consistent with Title I of the Housing and Community Development Act of 1974, as amended, the primary objective of the Colonias Assistance Program is to provide decent housing and suitable living environment and expand economic opportunities for poor people living along the U.S.-Mexico border area. The program would provide significant financial support to assist state and local governments in transforming poor residential "pockets" into viable communities.

Several border states are already taking steps to coordinate and maximize the use of existing resources through working groups of state, federal and local government officials. The Colonias Assistance Program would build on, and support, existing coordination efforts while striving to address the most pressing needs of residents. It would also encourage and support regional consortiums desiring to provide a comprehensive approach to address the immediate and long-term needs of colonia residents on a state-wide or region-wide basis.

**b. Are we actually building communities out of illegitimate border/squatter settlements? Should these communities be rebuild from ground-up? Should we encourage these settlements to shift to existing municipalities where we can boost affordable housing through our current programs?**



Colonias came into existence as a result of unscrupulous developers and landowners subdividing land and selling unimproved lots under high-interest bearing contracts for deed. Buyers generally constructed whatever limited dwellings or shelters they could afford. As a result, most colonias have inadequate roads and drainage, inadequate or non-existent water and/or sewer facilities, and grossly sub-standard housing.

The Department would expect states to give colonia residents the option to improve their living environment where possible or to re-establish themselves in nearby communities. It will be critical to provide choices since many colonias residents already have a vested and financial interest in the lot of land they live on. These lots were purchased under some type of contract for sale, and many people have built their own homes, inadequate as they may be. More importantly, residents of these communities share common cultural, ethnic and language characteristics that provide them the security and support base necessary to communal living.

The responsibility of establishing land ordinances and enforcement of subdivision requirements lies with the states and their units of general local government. The Federal Government would support state and local government efforts to create model subdivision requirements that will control and eventually eliminate illegal subdivisions. States must pursue legislative measures that will permit them to prosecute violators. Where such laws already exist, states will be encouraged to act aggressively and expediently.

The situation of undeeded land must be addressed. In Texas, for example, the extensive use of sales contracts, which allow the developer to retain title until the debt is fully paid, predominates. Financial institutions refuse to make mortgages available unless the occupants hold clear title to the land. Since colonia residents are overwhelmingly very low-income Mexican-Americans, they have limited ability to pay off these contracts or make home improvements without assistance. The proposed program would provide that financial support.

From a economic perspective, it is more practical and cost effective to rehabilitate those homes which can be repaired at a reasonable cost. Where a property(ies) is determined to be totally unsuitable for human habitation or the cost of rehabilitation far exceeds reasonableness, relocation would be encouraged.

Although the vast majority of colonia communities are located in unincorporated areas of the four States, many can be found in close proximity to existing municipalities. Since the residents are extremely poor with little or no education and/or employment skills, providing little or no tax base incentives to existing municipalities, many cities will not annex them. The

maintenance and operation costs of infrastructure, housing rehabilitation and other related support services programs to these communities would be a tremendous financial strain to cities that can barely provide adequate services, as is, to their own residents.

The concentration of very low-income persons into existing cities and municipalities would only exacerbate the critical issues of affordable (and available) housing and other related support services (education, child care, health and welfare services, employment opportunities, etc.) faced by many of the border cities.

**c. What is HUD's long-range plans for the Colonias? Are we looking at the beginning of a major program for long-term development?**

The primary objective of the Colonias Assistance Program is to provide temporary assistance to states, local governments and nonprofit organizations for the purpose of meeting immediate basic housing, water and sewer needs of poor colonia residents.

The Department would expect states and local governments to continue coordination efforts once the Federal assistance is no longer available. The Colonias Assistance Program would provide the framework for these entities to continue to coordinate and maximize the use of existing resources through working groups of state, federal, local government officials and other interested parties in meeting the long-term needs of colonia residents.

Expansion of economic opportunities (opportunities that no doubt will continue to grow) as a result of the North American Free Trade Agreement, without the presence of adequate housing and infrastructure, would only serve to exacerbate the current housing and public facilities shortages along the border. More importantly, it would contribute to create a socioeconomic imbalance that can threaten the long-term community and economic stability of the border region.

Through the Colonias Assistance Program, the Department not only proposes to address the immediate problems of unincorporated areas on the U.S. side, but also recognizes the necessity to involve its Mexican counterpart in a cohesive, integral process aimed at improving living conditions of poor people on both sides of the border.

Active and constructive dialogue must occur on both sides to ensure that communities are developed and/or improved simultaneously. Economic support and monetary infusion of Federal/State/Local funds north of the border will only prove beneficial if reciprocated in the same manner and to the same extent by the Mexican Government.

Question: The HOME Investment Partnership Program was reduced by \$275 million.

a. How did the Administration arrive at a \$275 reduction? In other words, what were the key factors that prompted your budget analysis to justify that significant reduction?

b. Will the effectiveness of the program be compromised with this reduction? If not, how do you make that assessment?

Answer: a. As of the end of FY 1993, only 30% of the FY 1992 appropriation of \$1.5 billion had been committed, and 14% had been disbursed. Only 1% of the FY 1993 appropriation of \$1 billion had been committed, and .3% disbursed. With the FY '94 appropriation of \$1.275 billion being made available in addition to the funds previously appropriated, the Department determined that the rate of funds usage for the HOME program was such that a reduction in FY 1995 funding was warranted.

b. The Department does not believe that the effectiveness of the program will be compromised. While many jurisdictions are now effectively using their funds, there are others which still have not made adequate progress in implementing their programs. The Department is working with the slower-performing jurisdictions in an effort to increase their commitments and expenditures under the program.





**NAHRO**

National Association of Housing and Redevelopment Officials

**STATEMENT**

of

**RICHARD C. GENTRY**  
on behalf of the

**NATIONAL ASSOCIATION OF HOUSING AND REDEVELOPMENT OFFICIALS**

on

**HUD FY 1995 LEGISLATIVE PROPOSALS AND BUDGET**

and

**HR 3838, THE HOUSING AND COMMUNITY DEVELOPMENT ACT OF 1994**

before the

Subcommittee on Housing and Community Development  
US House of Representatives

February 24, 1994

NAHRO is a 61 year old professional membership association of housing and community development officials throughout the United States who administer HUD low and moderate income programs at the local level. Its membership, numbering 9,000, has long participated in the creation and fine-tuning of national housing and community development policies and programs.

Robert L. Armstrong, President. Richard C. Gentry, Senior Vice President. Richard P. Drnevich, Vice President - Community Revitalization and Development. Alyce Flanary, Vice President - Housing. Mary Lopez, Vice President - Commissioners. Gary Parsons, Vice President - Member Services. René Rooker, PHM, Vice President - Professional Development. Richard V. Nelson, Jr., Executive Director

Thank you, Mr Chairman, for the opportunity to be here today. My name is Richard C. Gentry and I am the Executive Director of the Richmond Redevelopment and Housing Authority in Richmond, Virginia. I am also the Senior Vice President of the National Association of Housing and Redevelopment Officials, on whose behalf I am testifying.

NAHRO, at the request of your subcommittee staff, expedited its policy development process to advise you early on of our members' proposals for HUD program modifications and streamlinings. On December 8 of last year, we shared our preliminary NAHRO Legislative Agenda with you and your Subcommittee colleagues. It suggests program modifications in 12 subject areas. An Executive Summary of that Agenda is attached to my statement for your ready reference.

We also shared our preliminary Legislative Agenda with HUD Secretary Cisneros and his Assistant Secretaries in the hope that our proposals would be incorporated in those made by the Department to the Congress.

Our Agenda proposes program modifications in the following areas:

1. Rent Reform for both public housing and Section 8 renters
2. Regulatory Relief for Local Housing Agencies
3. A Merged Section 8 Program
4. Crime grants for all LHAs with HUD-approved plans and need
5. Public Housing Operating Subsidy (PFS) revision
6. Public Housing Modernization formula revision
7. Restoration of the Consolidated Supply Program
8. Extension of the Lead Paint Testing Deadline in Public Housing
9. Local Housing Authorities to sponsor Housing for the Disabled
10. CDBG "hold harmless" allocations based on 1990 Census
11. HOME program modifications
12. LHA right-of-first refusal in HUD Property Disposition

Your bill, Mr. Chairman, contains a number of NAHRO proposals in modified form. It is based, in part, upon legislative proposals made by the Department last year. We commend you for taking the initiative to begin the dialogue early and quickly on many of these proposals so that they might be carefully thought through, debated, and refined by the Subcommittee.

The target adjournment date of October 7 this year combined with several major initiatives from the Clinton Administration, make it imperative that this Subcommittee and your Senate counterparts act expeditiously to reauthorize and refine HUD programs.

### Rent Reform for Public Housing and Section 8 Renters

Your bill would enable the "working poor" to live in public housing while earning income and accumulating funds to ultimately move up and out. We applaud this proposal, but suggest it needs also to apply to renters in the very same income group who reside in private housing using Section 8 rental assistance. Rent reform is part and parcel of a broad welfare reform effort in a number of federal programs. Excluding more than 3 million Section 8 households from rent reform is unfair and illogical from a policy point of view.

We commend you for excluding stipend and program-related income for those in job training and self sufficiency programs.

We propose several refinements to the rent reform section of your bill.

1. Increase the period of earned income disallowance to two years from the 18 months currently in the bill.
2. Increase to twenty percent (20%) the portion of earned income of currently employed residents which should be deducted from their "income" for rent calculation purposes. Current law deducts ten percent (10%).
3. Exclude all earned income for three years of young adults under the age of 25 who are not the head of household and who join the workforce.
4. In no event should the income exclusion result in a zero rent with a "negative" rent payment to the tenant by the Local Housing Authority.
5. Rent increases may be phased in, at the option of the LHA during a period of up to five years so that the tenant's rent payment does not increase by more than 10 percent per year during that time period.
6. A time certain for HUD to issue rules to implement this provision is essential.

### Regulatory Relief for Local Housing Agencies

Every Administration, both Democratic and Republican, have endorsed regulatory relief for a variety of public and private constituencies. Nevertheless, the past decade and a half has produced more rules and paperwork for local housing authorities as new federal mandates were promulgated, new HUD programs proliferated, and a "Gotcha!" mentality pervaded our HUD overseers.

Congress contributed to this morass by legislating in minute detail the specifics of new and current programs in an effort to ensure that HUD followed Congressional



intent. The result, however, has been inordinate and burdensome costs in personnel, time, and paperwork for both LHAs and HUD.

NAHRO suggests four areas for regulatory relief to be legislated by the Subcommittee for LHAs:

1. A Proclaimer Process by LHAs for compliance with HUD rules.

LHAs would certify, as part of their HUD program application, that they are complying with and will comply with HUD rules. They would be subject only to annual post-activity audit by an independent auditor. This should decrease the need for HUD Field Staff to monitor so many programs, agencies, and to do so frequently. This would free up HUD to focus on program monitoring and technical assistance to troubled and small agencies.

2. LHAs should be authorized to share 50 percent of the savings they achieve through efficient management. Currently all savings must be deducted from operating subsidies and returned to the US Treasury. This removes the incentive to LHAs to find and achieve program savings. It is in keeping with the "reinventing government" theme.

3. For the **Public Housing Modernization** program, Congress should authorize cash fungibility between fiscal years for Local Housing Authorities. This would enable them to move ahead with major repair and replacements to public housing sites that are ready to go, while deferring those which have situations causing delay. All Modernization projects would have to be in the LHA's approved five-year plan.

For example, a local agency may have proposed Modernizing a public housing building in Year One which still has residents living in it. The Year Two program might have proposed a new roof for another public housing building which would not require relocation of the tenants. Under the NAHRO proposal, the LHA could proceed with the Year Two work using Year One modernization monies. Currently this is not permitted and contributes to delays in the Modernization of Public Housing, the backlog of which is estimated by HUD at \$21 billion.

4. For Public Housing and Development, Congress should authorize LHAs to certify their compliance with federal environmental and historic preservation laws. Currently, they must wait up to six months for HUD approval of their proposals, for which the LHAs have previously prepared impact statements.

### **The HUD FY 1995 Budget and Legislative Proposals**

I turn now, Mr Chairman and Members of the Subcommittee, to the budget released by the President on February 7.

While NAHRO is pleased that the bottom line of proposed funding is \$1 billion more than the current fiscal year, we are shocked at the short-changing of public housing programs contained in that HUD budget. With the exception of Indian public housing and Drug Elimination Grants, which hold steady at this year's level, **all other public housing accounts are reduced.**

First and foremost, we are deeply disturbed by the proposed cutback in **Public Housing Operating Subsidies**. This formula funding makes up the difference between what it costs to keep the heat and lights on, the trash removed, the grounds maintained, the building secured and the rents paid by low income residents who, by law, may not pay more than 30 percent of their income for rent. Without accounting for inflation, the proposed budget for Operating Subsidies is **at least \$344 million below the need, and would be less than 84 percent of full formula funding under the Performance Funding System** created by Congress!

The 1.4 million families and seniors currently living in public housing will feel the brunt of such a reduction. It is unconscionable that this Administration would propose such a reduction.

Your bill, on the other hand, rightfully recognizes the need to fully fund PFS and provides \$2.7 billion for operating subsidies. We thank you for that.

Second, the **Public Housing Modernization program takes a major hit** in FY 1995 proposed funding. It would be cut 14 percent and a new \$85 million earmark would lop off even more money for a new program. Secretary Cisneros himself acknowledged in testimony before the House Budget Committee on March 9 that just to keep pace with the Modernization backlog of \$21 billion requires annual funding of \$3.2 billion. NAHRO believes at least \$4 billion is needed in FY 1995 in Mod funding.

We disagree with the Administration's proposal to permit Modernized public housing units to count as "one-for-one" replacements, as required by law authored by this Subcommittee. The effect of such a proposal is to reduce the total supply of public housing through attrition without replacements.

By failing to propose a reasonable number of new Public Housing units and 15 year project-based Section 8 assistance, the HUD budget ignores the law which requires that each unit of public housing demolished or disposed be replaced in-kind with another "hard" unit.

A substantial portion of our nation's 1.4 million public housing units are now 40 - 50 years old. They have been a way station for millions of low income Americans on their way up and out during those years. Much of it has been successfully modernized during those years, as the life cycle of any residential building requires major upgrade about every twenty years. The estimated public investment

in our nation's public housing stock is \$4 billion.

The Modernization program rehabilitates housing and generates jobs in thousands of local communities, employing building suppliers, architectural and engineering services, and the building trades. NAHRO members have led the way in ensuring that minority contractors participate fully in this major program and that public housing residents are employed as apprentices to learn job skills which will enable them to gain economic independence. The STEP-UP program, sponsored by HUD, the Labor Department, and NAHRO is getting off the ground now in several US cities. For example, Chicago's program has been underway for almost two years and Baltimore is about to embark on its STEP-UP program.

This Subcommittee and the Clinton Administration in the past have recognized the job stimulus and investment value of the Public Housing Modernization program and have proposed additional funding for the program to "jump start" our economy. So, it is indeed troubling to see this program take a hit in the President's budget.

HR 3838, your reauthorization bill, Mr. Chairman, continues Mod funding at \$3.3 billion, a level which will permit the pace of major repair and replacement of our nation's aging public housing to continue without falling behind and adding to the backlog.

Third, the **Public Housing Development/Acquisition account would be slashed 31 percent to the insignificant level of 1754 units for the entire country!** There are one million families and seniors on waiting lists nation-wide for this permanently affordable low rent housing. In Los Angeles alone, the waiting list for public housing numbers 20,000 families.

This account is essential to enable LHAs to add to the supply of low rent housing by acquiring and building homes on scattered sites; to replace aging, poorly sited public housing on a one-for-one basis as required under the law; and to permit LHAs to acquire HUD, RTC, and other foreclosed homes for low income reuse in towns, cities, and counties across the US.

The Reagan-Bush Administration led an assault on this proven program for the past decade in their budget proposals. We had hoped for much better treatment from the Clinton Administration.

Here again, Mr. Chairman, you are the champion of the Public Housing Development and Acquisition program and recognize its value as the primary source of permanently affordable low rent housing. HR 3838 funds the program in FY 1995 at a level that will, at least, enable us to continue at a minimum level of 7,400 units.

Fourth, the **Section 8 Rental Assistance program** would be subverted in several



ways by the Administration's proposals. The Administrative Fee is essential to the successful operation of this program which houses more than 3.1 million households in the private housing market. The fee compensates LHAs for, among other things, the costs of:

1. determining applicants income eligibility and annually recertifying Section 8 residents' income
2. counselling applicants about housing opportunities in the local community and ensuring they have full access to the rental market
3. outreach to landlords to participate in the program by renting to Section 8 holders
4. annual Housing Quality Standard (HQS) inspections of those Section 8 homes and apartments
5. carrying out federal mandates such as:
  - a) determining Federal Preferences of applicants for Section 8 housing;
  - b) billing and paperwork for a growing number of "portable" Section 8 tenants who have relocated out of or into the jurisdiction; and
  - c) implementation of the Family Self Sufficiency program which is a prerequisite for all LHAs receiving new Section 8 rental assistance.

**The HUD budget would, inexplicably, reduce this fee!** This Subcommittee is well aware of the importance of this fee to the successful operation of the Section 8 program in each Member's own District. We urge you to reject any proposal to tinker with this fee precipitously and without full justification. To date, none has been offered by HUD or the Office of Management and Budget.

Compounding this potential problem, the Administration proposes to reduce the percentile of local market rents at which the Section 8 Fair Market Rents would be set. Currently, FMRs are set at 45 percent of local market rents. NAHRO believes this percentile should be increased, rather than decreased, in order to ensure that Section 8 tenants have access to a broader share of the rental market. If HUD and OMB have their way, Fair Market Rents will be lowered and Section 8 tenants will be ghettoized and concentrated in pockets of poverty. This flies in the face of the Department's commendable efforts to expand affordable housing opportunities for low income and minority residents, and to enforce our nation's fair housing and lending laws. We urge this Subcommittee to reject this ill-conceived proposal.

Further troubling to us is the proliferation of set-asides within the Section 8 account for special needs groups and special programs. Rather than rely on the good judgement of LHAs to determine the special needs in their particular communities, HUD and the Congress have continued to create new programs and then set-aside

knows best" way, who should receive Section 8 assistance. And it reduces the limited funds available for fair sharing to localities nation-wide.

The HUD budget for FY 1995 would set-aside 25,000 units of the proposed 70,000 new units of Section 8 for such special groups, leaving only 45,000 net new units to be fair shared. There are 800,000 eligible applicants currently on waiting lists nationwide for this rental assistance program, who are hoping that this Congress will provide a substantial increase in net new Section 8 units. These continued set-asides thwart that effort.

NAHRO has consistently told the Congress and the Administration that **new programs must be funded with new money**. The proposed set-asides for the AFL-CIO Pension Fund (with 15 year contracts); for "homeless housing" (above and beyond the proposed doubling of McKinney funds); and the Sec. 811 Housing for the Disabled would continue to erode what once was a national rental assistance program into a series of small, special purpose programs, each requiring program rules, separate funding rounds, and separate grant applications. **This goes against the grain of reinventing government and devolving more decision-making and responsibility for programs to the local level.**

NAHRO will submit for the record a chart showing the current set-asides of the Section 8 program.

It would be far less onerous and in keeping with the reinvention effort for the Congress to state who should be eligible for the program and leave it to local discretion to tailor the program to each community's specific needs.

The fourth area of the HUD FY 1995 proposal is **new program proposals**. If I might refer you to the last page of the Appropriations Chart attached to this testimony, you will see that, by NAHRO's count, **HUD is proposing twelve (12) new programs to be authorized at a total cost of \$3.1 billion.**

In another time, with the federal deficit under control and more generous HUD budget authority, many of us would be jumping for joy at these proposals. But the cold, hard facts of life are that these program proposals, if enacted, are certain to eat into the funding of current, proven programs. Further set-asides, earmarks, and reductions of current programs are the only way to pay for new initiatives, as we all know. And that, Mr. Chairman and Members of this Subcommittee, is simply unacceptable. It is particularly ironic that HUD proposes more than \$3 billion in new programs at the same time it cuts Public Housing by \$1.4 billion, provides for no one-for-one replacements, lops \$200 million off CDBG through an earmark, cuts HOME by \$275 million, and effectively adds only 45,000 net new Section 8 units to the nation's housing supply.

The US Advisory Commission on Intergovernmental Relations recently reported that the federal aid system had 506 micro-grants in 1992 -- 82 more than in 1980, out of a total of 553 federal aid grants. Those 506 micro-grants were funded by only 10 percent of total federal aid money. ACIR documented a trend in housing programs toward more and smaller grants.

An ACIR member was quoted as saying "Money is tight, but peewee grants still breed like rabbits.... While federal aid to local governments has declined steeply since 1978, special interests and federal micromanagers have tightened their grip by dividing up the pie.... Federal help of this sort is counterproductive."

With the exception of the proposal to block grant McKinney funds, which NAHRO supports, and the use of UDAG recaptures for loan loss reserves and bridge loans under the Sec. 108 Loan Guarantee program, these HUD proposals are new to us and many other public interest groups. We will review them with our members, once the detailed legislative language has been shared with us. But at the moment, we must reserve judgement on the merits of these new HUD initiatives.

The challenge to this Subcommittee and its Senate counterpart is to set priorities for what it believes the mission of HUD should be and tailor programs to that mission. You must ask hard and critical questions of yourselves and HUD to define the problem(s) and to relate the proposed solution or program to that problem with clear outcomes, costs, and benefits identified.

This Subcommittee has produced two major housing reauthorizations in the past four years with many new programs. Many of those programs are still awaiting implementation by HUD. Mixed Populations, Tenant Income Adjustments, Federal Preferences, the Alien Rule, and The National Housing Trust are among those initiatives yet to be implemented.

The HUD Inspector General has repeatedly identified the proliferation of programs coupled with a decline in HUD staffing as a material weakness in the performance of the Department of Housing and Urban Development. We all need to proceed cautiously here as we seek to reinvent HUD and ourselves and develop creative approaches to stretch HUD resources farther and achieve the most return on this crucial federal investment.

### **Merged Section 8 Rental Assistance Program**

Returning now to HR 3838 and the NAHRO Legislative Agenda, NAHRO has long supported a merger of the Section 8 certificate and voucher programs. We believe this will simplify the program for tenants, landlords, HUD, and LHAs. And it will reduce the paperwork and administrative costs of administering two separate programs.



Your reauthorization bill of two years ago contained a Merged Section 8 Program, as does the bill before us today. However, there are some differences between your original and current proposal. We propose the following modifications to your bill:

1) The Fair Market Rent for each local housing market should be increased to the 50th percentile of the area's local rents. It is currently set at 45 percent and HUD proposes to reduce the share of the rental market to 40 percent. We disagree strongly with the HUD proposal, which will have the effect of further concentrating the poor in certain parts of town and limiting their choice of housing. The Department's proposed reduction would subvert the Department's efforts to spearhead fair housing and "moving to opportunity" initiatives.

2) FMR setting could be done by the LHA, rather than HUD, in many instances. It should be an option in your bill, with the rents subject to HUD disapproval. The Local Housing Authority is on-site in the housing market, knows the market rents, and is best equipped to determine reasonable FMRs. Your bill does not permit this. We urge that it do so to relieve HUD of a burdensome task which consumes enormous amounts of staff time and money -- something the Department can ill afford to spend on non-critical missions.

3) Furthermore, the bill should provide for submarket rent-setting. This feature would match rents more closely to the specific neighborhood and avoid over and under-payment of Section 8 rental assistance.

4) NAHRO does not believe that public housing residents should have a Federal Preference for Section 8 assistance, as your bill provides. Public housing residents (1.4 million households) are already housed and receive HUD assistance. Waiting lists for Section 8 number more than 800,000 families and individuals. The proposed authorization level in your bill for additional Section 8 assistance would only be able to house 63,500 of those currently on Section 8 waiting lists.

5) Tenants seeking to rent housing in better neighborhoods, with more amenities, and close to the tenant family's school, place of worship, shopping, and work should be permitted to pay not less than 30 percent but not more than 50 percent of their income for rent, based on a "rent reasonableness" test by the LHA for the market in which the housing unit is located.

Your bill of two years ago provided a 'shopping incentive' to tenants to seek housing in better neighborhoods by permitted them to pay up to 40 percent of their income for rent, subject to "rent reasonableness".

6) HR 3838 should set a date certain for HUD rulemaking to implement a Merged Section 8 program.

We commend you for providing the flexibility to LHAs to determine the amount of Section 8 assistance to project-base and for including the NAHRO proposal to "make whole" those LHAs which lose Section 8 assistance through portability.

Most importantly, we thank you for freezing the Section 8 Administrative Fee at its current level of 8.2 percent for FY 1995 and 1996. This will provide sufficient time for HUD and others to document the true costs of administering this increasingly complex program with a growing number of federal mandates including Family Self Sufficiency, portability, and Federal Preferences.

The HUD proposal to change the way this fee is calculated is precipitous and unsupported by facts. A reduction in the Section 8 fee at this time would harm tenants by short-changing annual income recertifications, Housing Quality Standard inspections, counseling services by LHAs, and Family Self Sufficiency efforts.

### **Community Partnerships Against Crime (COMPAC)**

NAHRO concurs with the broadening of Public Housing Drug Elimination Grants (PHDEP) to a generic crime deterrence and reduction program in public housing (COMPAC). We are concerned, however, that this proposal of HUD limits the bulk of the funding to 157 "large" LHAs. HUD, in discussions with NAHRO, has made it clear that it intends to funnel most of this new program to "large" LHAs which manage more than 1250 public housing units.

In doing so, the Department will hamper and, in some cases, terminate on-going efforts to reduce crime under the current grant program in hundreds of other public housing communities, simply because they fail to meet the 1250 unit threshold. Nine states have no "large" housing authority; 12 other states have only one; and another 6 have only two "large" LHAs.

As proposed, COMPAC will deny funds to many suburban metropolitan area LHAs with equally serious crime problems. In the five year history of this program, 1278 of the nation's 3400 public and Indian housing agencies have ever received a grant.

NAHRO proposes that COMPAC be structured as follows:

- 1) All LHAs with HUD-approved five-year crime reduction/deterrence plans be eligible for formula funding. The plans would be subject to HUD disapproval similar to the CHAS requirement under the HOME program.
- 2) Funding should be based on the number of public housing units an agency manages. The national pot would be divided on a dollar-per-unit basis among those HUD-approved LHAs.

3) Grants would be renewable up to four subsequent years, subject to annual HUD performance reviews.

### **HOME Program Modifications**

On a more positive note, the HOME changes proposed by HUD and incorporated in your bill were proposed to the Department by an alliance of public interest groups, including NAHRO, whose members administer the program. We support these proposals and suggest four further refinements:

- 1) HOME jurisdictions should use the local Section 8 waiting list and federal preferences for tenant-based assistance for HOME applicants.
- 2) Participating jurisdictions should develop a monitoring plan for HOME rental projects to replace the current annual on-site review.
- 3) HUD-required Housing Quality Standards (HQS) should not apply to emergency repairs or weatherization involving \$5000 or less in HOME funds.
- 4) The local match required under the program should count owner cash investment in the project to be assisted with HOME funds.

### **CDBG Allocations Based on the 1990 Census**

As you know, Mr Chairman, the 1992 Act required HUD to report to this Subcommittee on CDBG allocations resulting from use of 1990 Census data. That report has not been forthcoming as yet. The concern is that many communities are likely to experience sudden sharp decreases in their CDBG funding.

NAHRO proposes a two-year hold harmless for those formula entitlement communities, holding them harmless at 100 percent in Year One and 50 percent in Year Two, once the 1990 Census data is used for CDBG formula allocations.

### **Public Housing Modernization Formula revision**

We urge this Subcommittee to revise the Mod formula to require HUD to factor in the following costs:

- 1) lead paint testing, abatement, disposal, worker training, and insurance
- 2) accessibility for the disabled required by Sec. 504 of the Rehabilitation Act and the Americans with Disabilities Act
- 3) hazardous material abatement required under Superfund



Furthermore, we believe the Public Housing Vacancy Reduction program, which is a set-aside within the Mod account, should be abolished. The Severely Distressed Public Housing program, which is operational and in its second year of funding, effectively addresses the problem for which this set-aside was intended.

### **Public Housing Operating Subsidy Revisions**

The Performance Funding Systems (PFS) was created by Congress in 1975 to formula fund 2900 local housing authorities where tenant rental payments do not cover the costs of management, maintenance, and utilities of the public housing in which they live. The PFS has not been revised since then, yet a number of new federal mandates and escalating costs have made it necessary to revisit this formula.

NAHRO urges this Subcommittee to include in the PFS the following items:

- 1) LHA employee benefits
- 2) tenant income adjustments mandated by NAHA
- 3) rental revenue reductions resulting from Rent Reforms
- 4) Service Coordinator costs for Family Self Sufficiency, Mixed Populations, and Elderly public housing programs
- 5) deferred maintenance
- 6) utility costs of air conditioning

Congress should direct HUD to engage in negotiated rulemaking to revise the Performance Funding System.

### **Mixed Populations**

Our members were dismayed with the rules finally proposed by HUD for mixed populations in public housing. We think the Department has seriously misread Congressional intent and urge this Subcommittee to look at the HUD proposed rules in the context of your deliberations to craft Title VI (Mixed Populations) of the 1992 Act. We will share our comments to the Rules Docket Clerk on this matter with the Subcommittee next week.

One legislative improvement which we believe will aid substantially in our efforts to provide secure, reasonable, and appropriate supportive housing for both senior citizens and younger mentally disabled persons is to permit local housing authorities to sponsor Sec 811 Housing for the Disabled. We urge its inclusion in your bill, Mr. Chairman.

We are delighted that HR 3838 would fund the Major Reconstruction of Obsolete Projects (MROP) at \$200 million and the Sec. 811 Housing for the Disabled at \$477 million. Both programs were authorized by Title VI of the '92 Act to serve

as housing resources to LHAs to enable them to create new supportive housing for the disabled and for seniors. These programs can be a pressure relief valve for those senior buildings currently in turmoil because of conflicting lifestyles between seniors and younger mentally disabled persons.

They, combined with the proposed Merged Section 8 program, which would provide an estimated 65,266 net new units are essential components of the solution to the growing problem of Mixed Populations.

#### **Restore the Consolidated Supply Program**

In connection with HUD and Local Agencies' efforts to expedite the obligation of Modernization funds and return public housing units to occupancy, we urge Congress to restore the HUD Consolidated Supply Program.

This voluntary bulk procurement program was created administratively by HUD in 1965 and abruptly terminated by the Bush Administration. It enables local housing authorities to purchase standardized items used in modernizing public housing from HUD-certified suppliers. Products include kitchen stoves, cabinets, bath fixtures, and appliances. Purchase can include installation of the items as well.

The CSP reduced costs and paperwork to LHAs because they did not need to have in-house procurement and contracting officers. Nor did they have to go through the time-consuming and elaborate three-bid procedure to decide on the lowest bidder. These costs savings were particularly important to small and medium sized LHAs, numbering more than 3100 nationwide.

The demise of the CSP has hampered and delayed procurement under the Modernization program, thereby contributing to the pipeline of unspent funds.

#### **Lead Paint Testing Deadline Extension**

Representative Roukema first focused this Subcommittee's attention on the problem of lead-based paint in older public housing in 1987. The Act that year required all LHAs to test a random sample of its family public housing (more than 800,000 units nation-wide) to determine if lead was present in the paint in those units. A deadline of December of 1994 was set for this sample testing to be completed.

A number of issues immediately arose in connection with this mandate. For one, this new federal mandate did not come with new money. The level of lead considered toxic to children was revised downward by the federal government in the ensuing time period. The sensitivity of testing instruments and laboratories got better during the same period. Worker training programs began to be developed in the

proper procedures to test and abate while protecting both current residents, as well as the workers themselves.

The LHA has no special funding to abate the lead paint, and must rely on its Modernization program, which was not planned with this mandate in mind and for which federal formula funding does not include the costs of abatement.

NAHRO suggests the deadline be revised to direct LHAs to complete random testing of family public housing within one year of receipt of Modernization or Comprehensive Improvement Assistance Program (CIAP) funds for this purpose.

Furthermore, we urge this Subcommittee to direct HUD to factor into the Modernization formula (Sec. 509 of NAHA) the costs of lead-based paint testing and abatement and to include that cost in its annual budget proposal to the Congress.

#### **HUD Property Disposition: LHA Right-of-First-Refusal**

We are pleased, Mr. Chairman, that your bill, as well as the Senate-passed bill provide for local public agencies the right-of-first-refusal to acquire HUD-held single and multifamily housing for low-income reuse.

Local Housing Authorities have extensive track records in producing, leasing, purchasing, managing and maintaining low rent housing for American families and seniors. They are in virtually every local housing market and are able to put their expertise to work to assist HUD in converting its foreclosed housing inventory into a new affordable housing resource.

NAHRO is currently working with the Resolution Trust Corporation in training and outreach to LHAs to expedite the resale of RTC-held properties as well.

Thank you for the opportunity to be here.



## HUD APPROPRIATIONS

2/21/94

Program	FY 1993 actual	FY 1994 actual	FY 1995 Clinton Proposed	FY 1995 NAHRO Proposed	FY 1995 Gonzalez

(\$\$\$ in millions)

## PUBLIC AND INDIAN HOUSING

P.H. Development	\$ 400	\$ 478	\$ 150	\$ 644	\$ 615
Indian Housing	\$ 257	\$ 263	\$ 263		\$ 276
Operating Subsidies	\$2,532	\$2,621	\$2,496	\$3,000	\$2,750
Modernization	\$3,100	\$3,230	\$2,786	\$4,000	\$3,327
Econ Dev Ctrs. <sup>1</sup>	\$ - 0 -	\$ - 0 -	\$ (25)		
Tenant Opportunity <sup>2</sup>	\$ n.a.	\$ n.a.	\$ (85)		\$ (15)
Child Care	\$ (5)	\$ (15)	\$ (35)		\$ (26)
Family Investment Ctr	\$ 25	\$ 25.6	\$ 26	\$ 25	\$ (26)
FSS Service Coord.	\$ (3)	\$ 30	\$ - 0 -	\$ (30)	\$ (30)
Mixed Pop Serv Coord	\$ - 0 -	\$ 30	\$ 30	\$ (30)	\$ 272
P.H. Drugs/Crime	\$ 175	\$ 265	\$ 265	\$ 325	\$ 802
Severely Distressed	\$ 300	\$ 778	\$ 500	\$ 500	\$ 123
MROP	\$	\$ 119	\$ - 0 -		\$ 200
One-for-one					

## COMMUNITY DEVELOPMENT

CDBG	\$4,000	\$4,400	\$4,400 <sup>3</sup>	\$4,400	\$4,532
"Lift"	- 0 -	- 0 -	\$ (200)		
Econ Revitalization,	- 0 -	- 0 -	\$ 150 <sup>4</sup>		
Community Viability,	- 0 -	- 0 -	\$ 150		
Empowerment/Enterprise,	- 0 -	- 0 -	\$ 500		
Colonias,	- 0 -	- 0 -	\$ 100 <sup>10</sup>		
108 Loan Guarantees	\$2,000	\$2,054	\$2,000	\$2,000	\$2,115

- <sup>1</sup> \$2,686 net after \$100 M in earmarks, incl. \$85 M for Tenant Opportunity
- <sup>2</sup> Set-aside from Assisted Housing. On-site job training and referral of public housing residents in Mod work
- <sup>3</sup> Authorization required
- <sup>4</sup> Set-Asides: \$198.7 M - PHAs over 1250 units; \$53 M - all other PHAs; \$13.2 M for HUD-assisted private rentals
- <sup>5</sup> HUD may fund any application received by May 26, 1993. Up to \$2.5 M for tech. ass't; youth apprenticeship
- <sup>6</sup> \$10 M; Youthbuild-\$20 M. 15 FTEs for Severely Distressed Office in HUD.
- <sup>7</sup> Incl. in \$300 M Severely Distressed
- <sup>8</sup> 75% public housing 'hard' units; 25% Sec. 8 fifteen-year project-based
- <sup>9</sup> \$4.2 billion net after \$200 million "Lift" set-aside
- <sup>10</sup> Economic development grants to leverage private investment in distressed neighborhoods
- <sup>11</sup> Water/sewer, housing for Tex-Mex border squatter developments. Requires authorization.

Program	FY 1993 actual	1994 actual (\$\$\$ in millions)	FY 1995 Clinton Proposed	FY 1995 NAHRO Proposed	FY 1995 Gonzalez
<b>RENTAL ASSISTANCE</b>					
Certificates	\$ 600	\$ ( )	\$ ( )	\$ ( )	\$ 122
Vouchers	\$ 582	\$ 1,326	\$ 2,743	\$ 2,700	\$ 2,122
FSS Service Coord.	\$ -0-	\$ 8.4	\$ 17	\$ (30)	
Contract Renewals	\$6,346	\$4,558	\$4,292		ad. ans
Contract Amendments	\$1,350	\$ 900	\$1,101		ad. ans
Foster Care Certs	\$ 75	\$ 77	\$ -0-		\$ 107
Lead-Paint Demo	\$ 100	\$ 150	\$ 100		\$ 257
" " Opportunity	\$ (50)	\$ (171)	\$ -0-		\$ 176
Moving to Opportunity	\$ -0-	\$ -0-	\$ 149		
Special Earmarks	\$ (260)	\$ -0-	\$ -0-		
Metro Waiting List	\$ -0-	\$ -0-	\$ 24		
AFL Pension Fund	\$ -0-	\$ 100	\$ 514		
Nat Comm Dev. Inst.					\$ 103
<b>HOME - Homeownership</b>					
HOME	\$1,000	\$1,275	\$1,000	\$1,000	\$2,238
Nat. Housing Trust	\$ -0-	\$ -0-	\$ 100		\$ 558
<b>HOMELESS ASSISTANCE</b>					
Emergency Shelter	\$ 50	\$ 115	\$ -0-		\$ 150
Transitional Housing	\$ 150	\$ 334	\$ -0-		\$ 344
Sec. 8 SRO	\$ 105	\$ 150	\$ -0-		\$ 200
Shelter Plus Care	\$ 267	\$ 123	\$ -0-		\$ 150
Homeless Block Grant	\$ -0-	\$ -0-	\$1,250		
AIDS Housing	\$ 100	\$ 156	\$ 156		\$ 250
FEMA Transfer	\$ n.a.	\$ n.a.	\$ 130		\$ 193
Homeless Certificate	\$ -0-	\$ -0-	\$ 514		
Safe Havens					\$ 67
Continuum of Care		\$ 200			\$ 206

" Certs/Vouches not distinguished.

" Less than 5 yr renewal permitted. \$800 M deferred til FY 95

" \$800 M deferred until FY 1996

" Counseling public housing residents to relocate from impacted areas

" nonprofit entity to administer metro-wide tenant selection and assignment. 3 cities.

" 15 yr project-based assistance

" Localities: \$564 M States: \$374 M All other: \$59 M

" \$50 M - Safe Havens; \$20 M - rural homeless

Program	FY 1993 actual	1994 actual	FY 1995 Clinton Proposed	FY 1995 NAHRO Proposed	FY 1995 Ortizalez
(\$\$\$ in millions)					
<b>ELDERLY/DISABLED HOUSING</b>					
202/8 Elderly	\$1,131	\$1,158	\$ 150		\$1,114
811/8 Disabled	\$ 194	\$ 387	\$ 387		\$ 477
Elderly Service Coord.	\$ -0-	\$ 22	\$ -0-	\$ 465	ath ans
Mixed Pop. Svc Coord.	\$ -0-	\$ 30 <sup>a</sup>	\$ 6	\$ (30)	ath ans
Congregate	\$ 21	\$ 25 <sup>a</sup>	\$ -0-		\$ 26
Elderly Independence	\$ 38	\$ -0-	\$ -0-		\$ 41
<b>HOPE PROGRAMS</b>					
HOPE I-Public Hang	\$ -0- <sup>21</sup>	\$ 58 <sup>22</sup>	\$ -0-		\$ 50
HOPE II-Multifamily	\$ -0-	\$ 12	\$ 60		\$ 50
HOPE III-Single Family	\$ 95	\$ 40	\$ 40		
<b>OTHER HUD PROGRAMS</b>					
Preservation	\$ 600	\$ 541	\$ -0-		\$ 685
Refinance 235 Mortgagee	\$ n.a.	\$ n.a.	\$ 6		
Loan Management	\$ 202	\$ 94	\$ 150		
Youthbuild	\$ 40	\$ 48 <sup>23</sup>	\$ 50		\$ 50
Cities in Schools	\$ -0-	\$ 10	\$ -0-		
Housing Counseling	\$ 6	\$ 12	\$ 50 <sup>24</sup>		\$ 50
PD&Research	\$ 23	\$ 35	\$ 40		\$ 36
Fair Housing	\$ 15	\$ 25 <sup>25</sup>	\$ 33		\$ 37
HUD Staffing <sup>26</sup>	13,837FTE	12,334	12,418		\$1,150

<sup>21</sup> \$15 M - Project-based; \$5 M - Tenant-based; \$10 M - 202/811 bldgs

<sup>22</sup> \$6.2 M - current provider; \$18.7 M - new applicants

<sup>23</sup> All unspent monies rescinded

<sup>24</sup> Reclamation of \$66 M in unobligated balances from all HOPE programs proposed

<sup>25</sup> \$28 M from HOPE; \$20 M from Severely Distressed

<sup>26</sup> Competitive grants for nonprofit mortgage credit/homeownership counselling.

<sup>27</sup> \$20 M for testing (FHIP)

<sup>28</sup> Full Time Equivalent (FTE) positions



Program	FY 1993 Actual	FY 1994 Actual	FY 1995 Clinton Proposed	FY 1995 NAHRO Proposed	FY 1995 Gonzalez
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## INCREMENTAL UNITS

Public Housing	4,926	5,746	1,754	7,500	7,387
Indian Housing	2,800	2,785	2,715		2,922
Sec 8 Certs/Vouchers	35,516	39,703	70,000	80,000	63,495
AFL Pension Fund	- 0 -	3,000	(5,000)		
Homeless Certificates	- 0 -	- 0 -	(15,000)		
Foster Care (Sec 8)	2,308	4,338	- 0 -		2,865
Moving to Opportunity	(1,894)	(4,364)	- 0 -		(4,676)
202 Elderly	n.a.	n.a.	5,000		
811 Disabled	8,906	9,000	1,156		8,657
AIDS Housing	1,569	3,000	2,915	3,500	3,692
Shelter Plus Care	587	888	888		711
HOME	5,650	n.a.	n.a.		
	35,000 <sup>a</sup>	n.a.	n.a.	35,000 <sup>b</sup>	

## NEW HUD INITIATIVES REQUIRING AUTHORIZATION

Tenant Opportunity Program (TOP)  
 Lift econ dev grants for distressed neighborhoods  
 Economic Revitalization Grants  
 Community Viability Fund  
 Empowerment/Enterprise Zones funding  
 Colonias  
 Moving To Independence  
 Metro Area Waiting List  
 Homeless Block Grant  
 Homeless Certificates  
 Housing Counseling expansion  
 Economic Development Centers

**Total Funding First Requiring Authorization: \$3.197 billion**

<sup>a</sup> Assumes two-tiered match w/ 70% of funds for rehab/construction. Excludes rental assistance.  
<sup>b</sup> Assumes \$26,300/unit. Does not count two-yr rental assistance for 12,000 units.


**NAHRO**

National Association of Housing and Redevelopment Officials

### NAHRO Legislative Agenda Executive Summary

1. Rent Reform - Public Housing and Section 8
2. Regulatory Relief
3. Merged Section 8 Program
4. COMPAC crime grants for public housing
5. Public Housing Operating Subsidy (PFS) revision
6. Public Housing Modernization Formula revision
7. Consolidated Supply Program
8. Lead Paint Testing Deadline
9. Mixed Populations - LHAs sponsor Sec. 811 Disabled Housing
10. CDBG allocations based on 1990 Census
11. HOME program modifications
12. HUD Property Disposition

### RENT REFORM for PUBLIC HOUSING AND SECTION 8 RENTERS

1. **Ceiling Rents** to allow 'working poor' to keep more of their earnings
2. **Earned Income Exclusions** to reward work
3. **Rent Increases** - five-yr phase-in not to exceed 10% per yr
4. **Escrow accounts** - voluntary for FSS families

### REGULATORY RELIEF

1. A Proclaimer Process for compliance with HUD regulations
2. LHA self-certification for NEPA and Historic Preservation
3. LHA sharing in program-related savings with HUD
4. Expedite the Modernization of Public Housing

Robert E. Armstrong, President; Richard C. Gentry, Senior Vice President; Richard P. Drnevich, Vice President; Alvin H. Harty, Vice President; Mary Lopez, Vice President; Commissioners: Gary Parsons, Renee Booker, PHM, Vice President - Professional Development; Richard A. Nelson, Jr., Vice President - Finance

## SECTION 8 RENTAL ASSISTANCE MERGED PROGRAM

1. **Eligible Families** - incomes less than 80% of area median
2. **Rent-to-Income Ratio** - 30% of monthly income, not to exceed 50% with rent reasonableness
3. **FMR setting by HUD** - at 50th percentile of local rents
4. **Rent Standard** - FMR or LHA-set based on local market survey
5. **Tolling and Tenant Search Time** - may be extended beyond 60 days
6. **Nondiscrimination Against Section 8 Holders** - Repeal
7. **Federal Preferences by Public Housing Residents for Sec. 8** - disallow
8. **Project-basing** - up to 15% of annual allocation
9. **Portability** - HUD headquarters reserve to make whole localities losing Section 8 assistance above LHA absorption threshold
10. **Allocation System** - \$\$\$, rather than units
11. **Vacancies/Damage Payments** - discretion of LHA
12. **Administrative Fee**: 8.2% Complete study before changing
13. **Rulemaking Deadline** - Congress must set a date certain

## COMPAC FORMULA GRANTS Community Partnership Against Crime

1. Formula allocation to all LHAs with HUD-approved five-year crime reduction/deterrence plans.
2. Funding should be based on the number of public housing units an agency manages.
3. Grants renewable for four years contingent on successful performance.

## REVISE THE PERFORMANCE FUNDING SYSTEM

Congress must factor into PFS the following factors:

1. LHA employee benefits
2. Tenant income adjustments mandated by The National Affordable Housing Act
3. Rental revenue reductions resulting from Rent Reforms
4. Service Coordinator costs for Family Self Sufficiency, Mixed Populations, and Elderly housing programs
5. Deferred maintenance
6. Utility costs of air conditioning



## PUBLIC HOUSING MODERNIZATION FORMULA REVISION

Congress should factor into the Public Housing Modernization formula the following costs:

1. lead paint testing, abatement, disposal, worker training, and insurance
  2. accessibility for the disabled required by Sec. 504 and ADA
  3. hazardous material abatement required under Superfund
- Drop the Public Housing Vacancy Reduction program set-aside

### RESTORE THE CONSOLIDATED SUPPLY PROGRAM

**LEAD PAINT TESTING/ABATEMENT IN PUBLIC HOUSING:**  
Extend Deadline to one yr after receipt of MOD funds

**MIXED POPULATIONS:**  
Permit LHAs to sponsor Sec. 811 Housing for the Disabled

**COMMUNITY DEVELOPMENT BLOCK GRANT**  
1990 Census-based Allocations  
Full 'Hold Harmless' for Yr One; 50% Hold Harmless for Yr Two

### HOME Program Modifications

1. Flat 25 percent local match for all HOME activities.
2. HOME funds may be used for other than first-time homebuyers and the proceeds from HOME resales may be used for any HOME-eligible activity.
3. Income targeting should be based on units or families assisted
4. CDBG administrative funds can be used to administer the HOME program.
5. Project delivery costs are eligible activities under both HOME and CDBG and are exempt from the 20 percent CDBG administrative cap.
6. States may delegate environmental and historic preservation review procedures to localities.
7. The threshold for local participation should be \$500,000.
8. HOME jurisdictions should use the local Section 8 waiting list and federal preferences for rental assistance for HOME applicants.
9. Participating jurisdictions should develop a monitoring plan for their HOME rental projects. This plan would replace the current requirement for an annual on-site review of each HOME rental project.
10. HUD-required Housing Quality Standards (HQS) should not apply to emergency repairs and weatherization involving \$5000 or less in HOME funds

**HUD PROPERTY DISPOSITION:**  
Permit Public Agency Right of First Refusal

February 24, 1994, hearing held by the  
Subcommittee on Housing and Community Development,  
entitled "H.R. 3838, Housing and Community  
Development Act of 1994"

QUESTIONS FROM CHAIRMAN HENRY B. GONZALEZ TO  
MR. RICHARD C. GENTRY

1) What is NAHRO's opinion of provisions contained in H.R. 3838, originally contained in HUD's 1993 legislative package, that would disallow counting as earned income, for eighteen months, increases in income due to the employment of previously unemployed public housing residents, and that would make ceiling rents for public housing units reasonably related to the rental value of the units?

2) It is my understanding that NAHRO's principal concern with HUD's proposed Community Partnerships Against Crime or COMPAC program, included in H.R. 3838, is that the formula allocation system will result in the bulk of grant funds being distributed to large public housing authorities to the disadvantage of smaller housing authorities. Could you please elaborate on this concern, and recommend how you would change the formula allocation?

3) H.R. 3838 provides for the merger of the Section 8 certificate and voucher rental assistance program into a single rental assistance program. One of the central provisions of the merged program is that it maintains the current law certificate program requirement that a low-income tenant cannot pay more than 30% of their adjusted gross income for rent. What is NAHRO's opinion of maintaining this requirement?

4) The Section 8 merger provision contained in H.R. 3838 revises the current law portability provisions by making a twelve month residency requirement discretionary with a PHA, and providing additional rental assistance funds for portability for PHAs. What is NAHRO'S opinion of this provision?

Mr. Gentry's Response to Chairman Gonzalez' Question No. 1

**INCOME DISALLOWANCE FOR 18 MONTHS**

We applaud the income disallowance provision of HR 3838 for a one and one-half year period. NAHRO would go even further and would not count such earned income for previously unemployed residents for a two year period to enable tenants to save for other important family needs like school clothing, transportation, health care.

In the case of young adults who are not the head of household, we would exclude income for three years.

After the initial total discounting of earned income, rent increases could be phased in, at the option of the LHA, during up to five years, so that the tenant's rent does not go up by more than 10 percent per year.

Ceiling rents could be instituted by the LHA at its discretion for up to five years. Ceiling rents are maximums that ensure that a public housing or Section 8 resident does not pay more to live in HUD-assisted housing than they would on the private market. The calculation of ceiling rents should be up to the LHA, and should ensure that tenants are not penalized for increases in earned income by a rent increase.

NAHRO believes that this will help the "working poor" continue to live in these low income communities, lending a degree of income mix and stability to the building.

## Gentry Response to Chairman's Question No. 2

**COMMUNITY PARTNERSHIPS AGAINST CRIME**

NAHRO is concerned that the HUD proposed allocation of COMPAC funds, as detailed in S. 1299, would steer the bulk of funding to LHAs with "especially severe crime problems". The bill leaves it to HUD to determine what constitutes "especially severe crime problems", with little guidance from the Congress.

In fact, HUD Assistant Secretary Joseph Shuldiner has made it clear to NAHRO in several conversations that he intends to devote 75 percent of COMPAC funds to "large" housing agencies which manage 1250 or more public housing units. There are 157 such agencies around the country of the 3400 public and Indian housing authorities.

As NAHRO told Assistant Secretary Shuldiner in a September 28, 1993 letter (copy attached), we believe the 1250 unit threshold is arbitrary and not directly related to the degree of seriousness of crime in distinct public housing communities.

There are no "large" LHAs in 9 states; only one "large" LHA in each of 10 states; and only two "large" LHAs in each of another 7 states (list attached).

NAHRO proposes a more equitable approach to the problem of crime and drugs in public housing, which knows no boundaries and terrorizes hundreds of public housing communities, large and small. We propose formula funding for five years for any LHA with a HUD-approved five-year crime reduction and deterrence plan.

The formula would total the number of public housing units managed by each approved LHA; divide those total units into the annual appropriation for COMPAC to derive a per-unit dollar amount; and then multiply the per-unit amount times the number of units each approved LHA manages.

NAHRO does not expect that each and every one of the 3400 Public and Indian housing authorities will have a crime problem; want to participate in this program; prepare a five-year crime deterrence plan; and receive HUD approval of their plan. In the entire five-year history of the current Public Housing Drug Elimination Program, a total of 1278 agencies have ever been funded.

Our proposal does, however, assure a "level playing field" for agencies of all sizes where crime threatens their public housing communities. It provides predictable, multi-year funding, which is what every agency tells us they need in order to attract and retain allied service providers, police, and the like.



**Gentry Response to Chairman's Question No. 2****COMPAC**

It reduces paperwork and administrative costs for both HUD and LHAs. Local agencies won't have to compete annually for grants. HUD won't have to review them each year. This is in keeping with the "reinvention" of HUD effort and the staff downsizing at the Department. HUD lacks the staff, time, and expertise to review thousands of grant applications each year.

The NAHRO formula takes the annual worry and nail-biting out of the process. Drugs and crime in public housing are too serious to be left to the annual vagaries of a competitive grant, where one year you may get a grant, and another year, you don't. And you never know for sure if you'll get one, and how much it will be.

Our computer runs assuming various appropriation levels show that large LHAs, on average, would do better under this formula proposal than they have under the current competitive grant process where a number of them have not received grants each and every year.

Furthermore, our proposal requires annual performance reviews of each grantee. This also is in keeping with the "reinvention of HUD" concept, where the Department focuses on program management, rather than micro-managing programs, and picking and choosing winners and losers.

And finally, a Performance Report at the end of five years is required so that the Congress can know how the taxpayers' money was spent, where it went, for what activities, and the extent to which it reduced and deterred crime and helped to turn around crime-plagued low income communities of public and Indian housing.

(Mr. Gentry)


**NAHRO**  
 60Years

**National Association of Housing and Redevelopment Officials**

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September 28, 1993

The Honorable Joseph Shuldiner  
 Assistant Secretary for  
 Public and Indian Housing  
 US Department of Housing and Urban Development  
 451 Seventh Street SW - Room 4100  
 Washington, DC 20410

Dear Assistant Secretary Shuldiner:

Thank you for meeting with me and my staff on Tuesday, September 21 to discuss our concerns regarding the Department's legislative proposal known as Community Partnership Against Crime (COMPAC).

NAHRO concurs with the refocussing of Drug Elimination Grants into a generic crime reduction effort, with the expansion of eligible activities to include hardware costs, community policing, youth intervention and anti-gang efforts, and community outreach and partnerships with residents, neighborhood groups, and service providers.

As you know, NAHRO members range from "large" housing authorities to very small LHAs with fewer than 100 public and assisted units. Our total agency membership numbers 2010. Of those, 126 are "large" authorities. Indeed, our proposal to allocate grant funds on a per unit basis was proposed by one of our large agency members!

The proposed targeting of funds to a special class of "serious crime" LHAs, however, is a major concern for NAHRO members. As you reiterated in our discussion on Tuesday, your intention is to allocate 75 percent of available COMPAC (as well as Drug Grant) monies in 1994 to "large" LHAs under the rubric of the "serious crime" category.

We are troubled by your apparent commitment to use a 1250 unit threshold as a cutoff for determining those public housing agencies with "serious crime problems". Such a cutoff is arbitrary and is not directly related to the degree of the seriousness of crime in distinct public housing communities. You may recall that earlier proposals for this program suggested the same unit threshold as the Comprehensive Modernization Grant program - 250 units. The arbitrariness of

Jack Quinn, PHM, President, Robert L. Armstrong, Senior Vice President, Corina Robertson, Vice President - Commissioners, Kurt Greager, Vice President - Community Revitalization and Development, Mary James, PHM, Vice President - Housing, Tom M. Oliver, Jr., Vice President - Member Services, Lana Balka, PHM, Vice President - Professional Development, Richard Y. Nelson, Jr., Executive Director

The Honorable Joseph Shuldiner  
 September 28, 1993  
 Page Two

the cutoff is obvious because the Department proposes a different threshold - 1000 units - for Indian housing without any further explanation for that number.

Nor is it fair to permit a special class of LHAs to have renewed funding for four years, while all others would get a renewal commitment for only two years. The nature of crime in public housing and the steps to reduce and deter it require a long-term, multi-year commitment. That fact does not change whether an authority has 200,000 units and a problem or 200 units and a problem. We believe all housing authorities should have the same commitment from the Department for multi-year renewals so as to make a real impact in those crime-plagued communities.

#### FLAWS IN THE HUD CONCEPT PAPER ON "COMPAC"

The concept paper prepared by your staff on COMPAC allocation alternatives is misleading in implying that "85 percent of all public housing crime" is in large housing authorities. In fact, FBI crime statistics do not measure crime in public housing developments, but measure it city-wide.

Measuring crime on a per capita basis is fine for certain purposes, but it fails to identify the degree of crime in particular sub-areas, like public housing communities, within a given city. National FBI Crime statistics, therefore, mask pockets of crime in certain public housing communities, which may be located in cities with relatively low overall crime rates.

The lack of specificity of national FBI crime data is one of the principal reasons NAHRO members object to its use as the sole determinant of the need for drug and/or crime grants.

The HUD concept paper is further flawed by proposing that a housing authority's backlog of need for Public Housing Modernization funds is an indicator of "serious crime". The paper suggests there is a direct correlation which can be made between the two without further explanation or justification. A more refined approach might look at backlog of security needs along with the authority's five-year Modernization plan for security improvements. Building type and age, location, vacancies, and configuration of the overall development should be looked at as indicators of security needs and weighted relative to the size of the agency.

The Honorable Joseph Shuldiner  
 September 28, 1993  
 Page Three

#### THE NAHRO ALTERNATIVE FUNDING ALLOCATION PROPOSAL

While we may have been using "short-hand" in our discussion last Tuesday, I want to be clear that the NAHRO funding allocation proposal would not simply award COMPAC funds to all LHAs based on the number of public housing units they manage.

Essential to a comprehensive crime reduction program is a plan. Our proposal would require each LHA with a crime problem to develop a five-year plan describing the nature of the problem, the developments, the impact on residents, and the steps proposed to reduce and deter crime, identifying in the process allied law enforcement and service provider roles. This five-year plan would first have to be approved by the Department.

If approved, the LHA would become eligible for a formula allocation of COMPAC funds based on the number of public housing units it manages. The per unit dollar amount would be a function of how many LHAs had approved plans, their total number of public housing units, and the annual appropriation for the program.

We suggest the Department do a Call for Intention to Apply of all Local and Indian Housing Authorities, so that we might get a better fix on the universe of potential applicants early on.

Annual performance reviews would be required of those LHAs with approved five year plans and COMPAC grants. The Department would have the responsibility and the authority to monitor program compliance and ensure that funds were spent in accordance with the approved plans.

Such an allocation would significantly reduce paperwork and administrative costs for both the Department and LHAs and free them to focus on what they should be doing: reducing crime in the case of LHAs, and monitoring for program compliance and providing technical assistance in the case of HUD. The simplicity of the proposal is in keeping with the "reinvention" effort underway within HUD and the almost certain staff reductions with which the Department will be faced.

LHAs would not have to mount an effort every year to prepare a grant on the outside chance that it would be funded. And HUD would not have to spend its time reviewing reams of grants every year and deciding whom to fund.



The Honorable Joseph Shuldiner  
 September 28, 1993  
 Page Four

Moreover, our proposal promises broad-based political support for the program. The Department's tilt toward the very largest LHAs, of which there are 157, could lead to the ultimate demise of the program. There are no large housing authorities in nine states and only one in each of twelve other states. Another seven states have just two large authorities in each of them.

Yet in most of those states, there are housing authorities with 200 - 1200 public housing units with significant drug and crime problems that have applied for and participated in the current Drug Elimination program.

#### MULTIYEAR, PREDICTABLE FUNDING IS ESSENTIAL

As experience under the current program has shown, a multi-year commitment of funds, personnel, hardware, and services is necessary to get drugs out and keep them out. Turning around a development plagued with drugs, loiterers, gangs, poor design, unsecured entrances and exits, disinterested or scared residents, high vacancies, few alternative activities for youth, high unemployment, poor lease enforcement, and little or no substance abuse help is not a one-shot deal that can be accomplished with a one or two year grant.

Our members tell us a multi-year commitment of funds with a predictable funding stream would enable them to: first, secure the building, make the hardware improvements needed, and begin redesign of lobbies or grounds; then, engage the residents and enlist their involvement in resident watches and patrols; next, engage local law enforcement to begin or step up foot patrols, surveillance, and partnership with residents; next, step up after-school and youth activities to engage the kids; ensure that other family members who may need drug or alcohol counselling receive it. This, in turn, can lead into broader self-sufficiency efforts by residents to learn a job skill or return to school.

Senior buildings are not immune to this plague, as you know. The growing mixed population problem in many senior buildings has led to an alarming number of robberies, rapes, and even murders of senior citizens in their own homes.

We understand that not all LHAs will be able to justify the need for COMPAC funding. But it is important to permit all Local and Indian Housing Authorities that can justify the need and show the capacity to manage a COMPAC grant, regardless of size, to have a level playing field for the program.

The Honorable Joseph Shuldiner  
September 28, 1993  
Page Five

THE FY 1994 HUD APPROPRIATIONS BILL

We share your concern that the Senate Appropriations bill language on Drug Grants has complicated matters unnecessarily. And we were surprised that the Department had not been advised in advance of this language. It is our understanding that the Department will oppose the Senate funding directive in its Executive Comment letter to the Appropriations Conferees.

FISCAL YEAR 1995 ALLOCATION

We appreciate your commitment, Joe, to allocate any additional FY 1995 drug/crime funding to those housing authorities that did not apply, were not funded in FY 1994, or whose applications were denied due to errors. We continue to disagree, however, with your stated intention to allocate 75 percent of the program funds, whether drug grants or COMPAC, to large LHAs.

NAHRO will continue to promote our crime grant allocation proposal with the Congress and hope that you will reconsider your position.

Sincerely,



Richard Y. Nelson, Jr.  
Executive Director

cc: The Honorable Bill Gilmartin  
Assistant Secretary for  
Legislation and Congressional Relations

(Mr. Gentry)

**STATES WITH NO "LARGE" HOUSING AUTHORITY**  
(more than 1250 public housing units)

1. Maine
2. Vermont
3. Iowa
4. Montana
5. Utah
6. Idaho
7. South Dakota
8. New Hampshire
9. Wyoming

**STATES WITH ONE "LARGE" HOUSING AUTHORITY**

- |                  |            |
|------------------|------------|
| 1. West Virginia | 11. Alaska |
| 2. Arkansas      | 12. Hawaii |
| 3. Oregon        |            |
| 4. Michigan      |            |
| 5. Wisconsin     |            |
| 6. Kansas        |            |
| 7. Colorado      |            |
| 8. Nevada        |            |
| 9. North Dakota  |            |
| 10. Delaware     |            |

**STATES WITH TWO "LARGE" HOUSING AUTHORITIES**

- |             |              |                 |             |
|-------------|--------------|-----------------|-------------|
| 1. Maryland | 3. Minnesota | 5. Mississippi  | 7. Nebraska |
| 2. Kentucky | 4. Missouri  | 6. Rhode Island |             |

Mr. Gentry's Response to Chairman Gonzalez' Question No. 3

**30 PERCENT OF INCOME  
TENANT RENTAL PAYMENT**

As our prepared statement indicates, NAHRO believes Section 8 tenants should have the latitude to pay between 30 and 50 percent of their income for rent. They could do so only if the LHA has approved the higher rent by surveying the market to assure the rent is "reasonable".

Tenants seeking housing in better neighborhoods with more amenities and close to the tenant family's school, place of worship, shopping, and work should have this flexibility.

If the tenant elects to do so, we believe this would permit greater choice to the tenant in housing. In tandem with such increased choice, LHAs can protect the integrity of the program by greater useage of "rent reasonableness" determinations to keep landlords from over-charging for units and protect Section 8 tenants from rent gouging.



Mr. Gentry's Response to Chairman Gonzalez' Question No. 4

# PORTABILITY

## MERGED PROGRAM - Gonzalez Bill

NAHRO thanks you, Mr Chairman, for including in your bill a HUD Headquarters Reserve to "make whole" those housing authorities which lose Section 8 rental assistance when tenants choose to move to another locality, taking their Section 8 assistance with them. This is known as Section 8 "portability".

We are troubled, however, by the "limitation" on the current law 12 month residency requirement for Section 8 residents contained in your bill. As you may recall, Mr Chairman, this provision was hammered out after much negotiation two years ago. The "limitation" section was dropped then because it defeated the purpose of the preceding residency requirement.

For instance, Richmond currently administers 2500 units of Section 8 rental assistance. As proposed in your bill, 220 of Richmond Section 8 residents could relocate out of our community without a moment's notice and take their Section 8 assistance with them. Richmond would have lost 220 units of Section 8 assistance. There are about 2000 households currently on our Section 8 waiting list. Last year we received about 50 new units of Section 8 assistance.

As you can see, Richmond comes out a loser under this proposal.

The purpose of the 12 month residency requirement was to limit the growing phenomenon of "waiting list shopping" by low income people from outside the jurisdiction who would get on several localities' waiting lists in a desperate effort to get rental assistance sooner.

On the matter of LHA discretion to impose a 12 month residency restriction, we do not see a problem with such local discretion. However, it is my view that if an LHA decides to impose a local residency for first-time Section 8 renters, it should also be the LHA's discretion to determine whether any of those Section 8 renters should be exempt from the 12 month residency.

Your bill does not provide that local discretion. Rather, it would require that ten percent of first-time Section 8 holders could move from the jurisdiction at a moment's notice and take their rental assistance with them.

The provision in your bill would thwart the purpose of the current law residency requirement.

HOUSING AND COMMUNITY DEVELOPMENT SUBCOMMITTEE HEARING  
FEBRUARY 24, 1994

QUESTIONS OF  
CONGRESSMAN BRUCE F. VENTO  
FOR NAHRO REPRESENTATIVE  
RICHARD GENTRY

1. What communities are not being served by current drug elimination program, i.e. not receiving funding under the competitive program?
2. Are most of these drug elimination programs operated by your members providing prevention activities as well as additional community policing? What programs have you found to be the most effective?

**Gentry Response to Rep. Vento Question No. 1****Communities Not Served by  
Public Housing Drug Elimination Program**

Public Housing residents in 2900 communities are not being served by the current drug grant funding round.

The most recent round of competitive grant funding under the Public Housing Drug Elimination Grant Program (PHDEP) awarded funds to 437 housing authorities in Fiscal Year 1993. The potential number of applicant agencies was 3337. Of those, 849 applied for funding in FY 1993.

**Gentry Response to Rep. Vento Question No. 2****Most Effective Programs Using Drug Elimination Grants**

HUD data shows that the two areas of greatest use of PHDEP funds are Drug Prevention and Law Enforcement. Attached are two pages showing how funds were spent in 9 activity areas for FY 1991 and 1992. It has been our members' experience that the smaller agencies use their funds for Drug Prevention activities to keep drugs, gangs, and violence out of their public housing communities. The large agencies use their funds for Law Enforcement to root out drug dealing, guns, gangs, and violence.

(Mr. Gentry)

**1992**  
**Department of Housing and Urban Development**  
**Public Housing Drug Elimination Program (PHDEP)**  
**Funding Breakdown**

FIELD	TOTAL AMOUNT	PERCENTAGE
Law Enforcement	\$37,449,461	27%
Security Personnel	\$16,390,925	12%
Investigators	\$2,954,153	2%
Tenant Patrols	\$1,473,520	1%
Physical Improvements	\$5,694,955	4%
Drug Prevention	\$47,645,651	34%
Drug Intervention	\$12,412,812	9%
Drug Treatment	\$7,313,369	5%
Other Costs/Indirect	\$9,215,154	6%
Totals	\$140,550,000	100%



### Fiscal Year 1991 Drug Elimination Grants

Grants were awarded to a total of 496 PHAs during FY 1991. About 51% of the funds have targeted security functions and 49% have targeted programs to reduce drug usage.

<u>Funding Activity</u>	<u>Amount Awarded</u>	<u># Programs</u>
Security Personnel	\$ 12,432,241	167
Law Enforcement	45,008,497	469
Investigators	3,753,663	97
Resident Patrols	2,155,042	144
Physical Improvements	9,793,760	300
Drug Prevention Programs	47,032,160	657
Drug Intervention Programs	11,550,776	289
Drug Treatment Programs	7,874,414	106
Other	1,168,447	56
Total	\$140,775,000	2285



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**Statement of Moises Loza  
Housing Assistance Council**

before the Committee on Banking, Finance, and Urban Affairs,  
Subcommittee on Housing and Community Development,  
U. S. House of Representatives  
February 24, 1994

Good morning. My name is Moises Loza and I am Executive Director of the Housing Assistance Council (HAC), a nonprofit group working to create more affordable housing in rural America. I would like to begin by expressing appreciation for the opportunity to testify before your Subcommittee today on H. R. 3838--the Housing and Community Development Act of 1994. The Housing Assistance Council enthusiastically supports the reauthorization of the major housing programs administered by the Departments of Agriculture and Housing and Urban Development.

Mr. Chairman, 1994 is potentially a momentous year for housing policy in our country. More than three years ago, Congress passed the Cranston-Gonzalez Act, the most significant housing legislation in almost two decades. Now we are engaged in something of an internal debate about future directions. We must grapple with a number of questions: Will we maintain our important, historic commitment to public housing? How do we continue to deal with homelessness? How has the HOME program fared? Given budgetary limits, can we continue to rebuild after the housing cutbacks of the 1980s? Will we rely increasingly on vouchers, or should we build more affordable units? What further efforts are needed to deal with expiring rental subsidies and mortgage prepayments? How do we target more decent housing to some mostly overlooked groups--Native Americans, migrant farmworkers, and residents of the Mississippi Delta, Appalachia, and the Southwest border colonies? These are all vitally important issues. We hope that the debate this year will try to focus on some of them, while at the same time renewing our national dedication to a decent home for every American family.

**RURAL HOUSING PROGRAMS**

My comments today are directed mostly toward how the proposed Act will affect federal housing programs for low-income households in rural areas. First, let me comment on Title V, the part of the bill that deals with rural housing programs under the jurisdiction of the Farmers Home Administration. At the Housing Assistance Council, we are very pleased to see that the 1994 bill would reauthorize all Farmers Home housing programs at appropriate

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spending levels. (The one exception is Section 521 rental assistance, which we feel needs a higher authorization level.) We were particularly pleased to see that this bill would permanently authorize the Section 515 rural rental housing program. Appended to my testimony is a section-by-section analysis of Title V of H. R. 3838.

Mr. Chairman, we are always grateful for the attention that you and your staff devote to rural housing issues. In rural areas, substandard housing remains a major factor. Housing affordability is a severe problem throughout the nation and has become worse in the countryside. Because of that, I ask the Committee's indulgence to mention briefly a matter related to the bill before us but not part of it.

**Proposed change in Sec. 502.** The Administration, in its FY 1995 budget submitted earlier this month, proposes to increase from 20 to 30 percent the proportion of income that FmHA Section 502 homeownership borrowers will have to pay for their principal, interest, taxes, and insurance (PITI) on their loans. (I am referring to Section 502 of the Housing Act of 1949, not of H. R. 3838.) This will save money for the government, but at the expense of low- and very low-income families borrowing under the program. HAC's initial statistical analysis indicates that the result will be a dramatic shift upward in the level of family incomes needed to participate in the Section 502 program. With utilities and maintenance included, those currently participating in the program would see their shelter costs increase from 40 to 50 percent of income.

Ironically many people assume that this proposed change would only make the 502 program equivalent to the 30 percent of income paid by tenants in federally assisted rental housing. But this is not the case. The current 20 percent-of-income requirement in Section 502 is solely for PITI. Utilities and maintenance expenses are covered in the 30 percent rental formula, but not in the 20 percent homeownership formula. When low-income Section 502 homeowners add in utility and maintenance costs, they are already paying 30 percent or more of income for shelter. An increase in the interest credit subsidy basis to 30 percent, as proposed by the Administration's budget, will leave many current Section 502 borrowers cost burdened. Many such borrowers may be forced into default.

Such a proposal should be of concern to the authorizing Committees. We call your attention to this and suggest that, if passed, such a change in the Section 502 program would alter its target population fundamentally. (For a more complete discussion of the FY 1995 budget proposals, I would refer the Subcommittee to the new HAC publication, Hard Times: An Analysis of the Proposed FY 1995 Federal Budget for Housing. We would be glad to supply copies.)

**Native American housing demonstration.** We are very pleased to see included in the bill's rural title the new Rural Housing Capacity Demonstration Program for Native Americans and Alaskan Natives. As you know, Mr. Chairman, Farmers Home programs have proven very difficult to apply on tribal land. This new program--Section 510 in H. R. 3838--would help develop on-reservation capacity to utilize the FmHA rural housing programs. Housing needs in Indian country are some of the most intense in the nation, far surpassing the capacity of traditional HUD and Bureau of Indian Affairs housing programs for Native Americans. Those agencies have excellent programs and dedicated staff, but HAC has long believed the FmHA programs should be a supplementary housing resource on reservations. Despite overwhelming need (e.g., a 32.5 percent poverty rate among Native Americans), only 0.6 percent of FmHA homeownership and home repair loans were made to Native Americans in each of the last three fiscal years. Indians are a similarly low percentage of Section 515 rental housing tenants.

With financial support from the Northwest Area Foundation in St. Paul, Minnesota, HAC has over the past two years begun a small demonstration project very much like that now proposed in H. R. 3838. Working with several tribes in South Dakota, Montana, and North Dakota, we have funded and trained tribal staff to package FmHA loan and grant applications. Our success with the Cheyenne River, Standing Rock, and Northern Cheyenne tribes convinces us that the effort needs expansion. In our current project, we have worked with FmHA state and national staff to modify some regulations that limit effective use of the rural housing programs in the cultural and economic life of the reservations.

We have made some headway, and this amendment creating a new program will expand the effort. The demonstration will also provide a legal basis for Farmers Home to modify regulations further so as to fit reservation situations. HAC also would like to thank the very hardworking Subcommittee staff for their understanding and support in formulating this new proposal. We hope the Subcommittee will recognize the staff's excellent work. We also are very grateful to the Northwest Area Foundation for its support in HAC's work on the reservations.

**Deferred mortgage program.** HAC is strongly supportive of Section 502(b) of H. R. 3838, which would make permanent the deferred mortgage program within the Farmers Home Section 502 homeownership program. Currently this program is a demonstration, but it has been very successful. By deferring mortgage payments in some instances, several states have been able to reach lower income borrowers. With deferral, some states have been able to use their very low-income allocation within the Section 502 program.

HAC also would like to observe that the deferred mortgage program may be largely useless if the 30-percent-of-income proposal discussed above passes. It would make the program mostly



unaffordable to the very low-income borrowers who benefit from deferred mortgages.

**Underserved areas program.** The Housing Assistance Council also strongly supports the bill's Section 504. It would extend the Farmers Home underserved areas program and require that targeted underserved areas be designated as such for two years. Currently designations are for one year only. The bill further requires that at least five of the 100 underserved counties include tribal land and that those counties be designated as underserved for three years. HAC's observation of the underserved areas program shows that development of capacity to use FmHA housing programs requires more than one year.

Overall the underserved program has been excellent, targeting FmHA resources to places of very high need but little use of federal resources. The Subcommittee at some point might want to consider whether HUD resources could be similarly targeted.

#### **HUD PROGRAMS**

Mr. Chairman, I also have some brief comments on the programs of the Department of Housing and Urban Development. First, I would like to say that those of us involved in rural housing and community development are very appreciative of the new spirit at HUD. Secretary Cisneros has not forgotten smaller communities. From his confirmation hearings to the present, the Secretary has continually recognized the need to make HUD work in all parts of America, urban, suburban, and rural. But not only has the current HUD leadership recognized this. They also have acted on it, with efforts such as the new Special Actions Office, headed ably by George Latimer. For the first time, HUD has staff with specific responsibilities for rural, farmworker, and colonias housing. The Administration's budget has a \$100 million proposal for work in the colonias. These are very commendable efforts, and we appreciate the efforts to reach out to rural communities.

With regard to H. R. 3838, I have a few specific comments. The Housing Assistance Council supports the bill's reauthorization of programs administered by HUD. I will highlight a few provisions in the bill that apply to HUD programs especially targeted to rural areas. I also want to reiterate that communities of all sizes suffer from the wide variety of housing problems that HUD programs should address. We hope that the Department's new commitment to rural areas will soon be evidenced by increased access to all programs.

**HOME program.** We are pleased to see that the HOME program would be reauthorized and improved with several amendments. HOME is one of the most important new housing initiatives of recent years. It deserves both continuing support and careful scrutiny. We support the changes called for in Title II of H. R. 3838. The

bill would broaden participation by state agencies as participating jurisdictions. Removing the first-time homebuyer requirement would open up the program to more low-income people. Allowing use of CDBG funds for HOME program expenses would help with program delivery.

HAC is currently one of the HOME program's intermediary technical assistance providers. We have been pleased to see HUD and most states working diligently to use HOME dollars in rural areas. However, some states have been very slow to designate community housing development organizations (CHDOs) and spend HOME funds. Other very rural states--such as Vermont and Delaware--have spent all their small allotments and need more. Two years may be long enough for expenditure of the funding. The states that can use more HOME funds should be allowed to tap unused amounts.

**Colonias programs.** We strongly support Sections 604 and 605 of H. R. 3838. These sections (1) amend Section 108 of the Housing and Community Development Act of 1974 to include colonias activities as eligible for loan guarantee assistance and (2) reauthorize setasides of state CDBG funding for colonias activities. As you know, Mr. Chairman, many families in small rural communities of the U.S.-Mexico border region continue to live in deplorable "third world" conditions, without adequate housing, potable water, or adequate road and sewage systems.

Along with continued use of the colonias setasides, we urge that the Subcommittee support the Administration's Colonias Assistance Program as proposed in the budget for 1995. Although the CDBG setaside has provided for some successful development, it is not enough. Use of the setaside has varied widely from state to state, with Texas successfully allocating 10 percent of its 1993 funds to colonias activities, while Arizona allocated zero in 1992 and 5 percent in 1993. We understand that in addition to state reluctance to target funding toward the colonias, the set-aside program is hampered by uninformed or reluctant local and county governments who must apply for and administer colonias projects. We think that, with Secretary Cisneros's leadership and with time, these types of problems will lessen as the program becomes more established. However, the problems of the colonias are certainly severe enough to warrant additional direct assistance, as the Administration is proposing.

**Homelessness programs.** The Housing Assistance Council also supports Title VIII of H. R. 3838, reauthorizing programs under the Stewart B. McKinney Homeless Assistance Act. We especially support continued authorization of the Rural Homelessness Grant Program. Although the Administration's proposal to consolidate the McKinney programs appears to be an improvement for nonmetro communities, with a 25 percent allocation to states for use in nonentitlement communities, we are uncertain that such a program will reach the smaller, most underserved communities. Past experience shows that

the small percentage of homeless assistance funding that does reach nonmetro areas goes disproportionately to larger communities of up to 50,000. For example, during 1987 through 1991, only two percent of all Supportive Housing for the Homeless program funds went to nonmetro communities with populations of less than 20,000.

While we support increased funding of homeless assistance programs for all nonentitlement communities, the Housing Assistance Council especially hopes to see the Rural Homelessness Grant Program's provisions for smaller communities enhanced through increased authorizations. Rural homelessness may be more hidden, but it is no less of a shameful situation for this country than its more visible urban counterpart. Some rural families are forced to double and triple up in severely substandard housing. Some even sleep in cars, parks, or caves because shelter is unavailable.

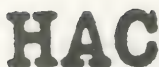
Indian housing. We are opposed to Section 122 of H. R. 3838, which would automatically apply public housing provisions to Indian housing programs. The position of the National American Indian Housing Council is to seek to maintain a distinction between public and Indian housing. The latter usually has needs that are very different from public housing. An automatic inclusion in public housing programs will cause confusion and delays in the operation of Indian housing.

Homeownership trust. HAC also enthusiastically supports the National Homeownership Trust. As HAC testified before this panel last year, the Trust will help many median- or middle-income families afford a home. Homeownership in our society works, economically and socially, for most people who have the opportunity to attain it. It is very important that we try to increase opportunities for homeownership. Rates of homeownership have been declining, especially among younger Americans. Between 1980 and 1990, among households with heads aged 25 to 34, the percentage owning their own homes fell from 51 to 45 percent.

Manufactured housing. Finally, I would like to briefly note Section 143 (k) of the proposed legislation, which authorizes the use of Section 8 rental assistance for low-income families living in manufactured housing. Sixty-four percent of the nation's mobile homes are located in rural communities. Manufactured housing is an affordable housing option. But we are concerned about the increased safety risks and decreased long-term value of manufactured--and especially mobile--homes.

#### CONCLUSIONS

The Housing Assistance Council believes that the proposed Act will help meet much of the need for affordable housing in our country, rural and urban. In summation, Mr. Chairman, let me reiterate that we support and are very grateful for your and the Subcommittee's efforts in this bill and elsewhere on behalf of low-income housing and community development.



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Appendix to  
Statement of Moises Loza, HAC  
Section-by-Section Analysis  
of Title V, H.R. 3838

The following comments and recommendations are by section number of Title V in H.R. 3838:

Section 501 provides reasonable authorization levels, particularly in light of the spending caps and budget reduction efforts. HAC does suggest that the proposed amounts for rental assistance (RA) are too low when considering (1) the proposed authorization levels for the Section 514/516 and 515 programs; (2) the 27,600 RA units that will need renewal during FY 1995; and (3) a dire need to provide servicing RA projects with vacancies and rent burdened tenants. Conversely, HAC believes the proposed authorization for Section 542 vouchers is high. The per unit contract cost is much higher than Section 521 RA; we believe it more prudent to provide portfolio assistance through the latter program.

The language making Section 515 authority permanent is also welcome news. This subcommittee will still have authority to limit funding levels, and the change will remove the lapsing problems encountered in the past. We do call your attention to the Administration's plan to reduce this program by 59.3 percent for FY 1995. Section 515 is the one FmHA program with the capability of servicing the poorest of the poor (87 percent of tenants have incomes below 50 percent of median). We do not deny it is an expensive program, but do remind the Members that this cost is directly proportionate to the incomes of those served. Interest credit and rental assistance both directly benefit tenants and do not accrue to owners.

Section 502(a) provides a cost appraisal for Sec. 502 loans to those who live or work in remote rural areas or tribal lands. HAC strongly recommends this replacement for the 1990 legislated grant, which was not restricted to the above parties and has almost no likelihood of ever receiving an appropriation. The cost approval language in this section is an improvement over similar legislation in the 1990 House bill. The limited market in such areas yields appraised values lower than costs. Without this amendment, families who live and work in remote rural areas are usually excluded from the program.

Section 502(b) makes the successful deferred mortgage payment program permanent. HAC endorses the amendment, while reminding the Congress that its usefulness could be impaired if FmHA is permitted to use the 30 percent rule in the

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Section 502 program. The demonstration program has resulted in some states now being able to use their very low-income allocation. It is proving to be an effective tool for targeting home ownership.

Section 502(c) clarifies and strengthens the reamortization and refinancing provisions in the Section 502 moratorium authority. HAC believes this provision will enable additional, once troubled, homeowners to adjust their way out of difficulty. It should result in less liquidation, which, in turn, should ultimately save money for the government. Both owner and government often incur loss in foreclosure procedures.

Section 503(d) provides for an increased grant level to nonprofit or public purchasers of prepaying rural rental housing projects. HAC believes that a somewhat modified version of it would be more practical. We think that loan funds should be used for this purpose when actual transfer costs exceed the grant limits imposed by appropriation acts.

Section 503(c) will phase in rent increases over a three year period to moderate income tenants resulting from incentives to avoid prepayment. This income class is not otherwise protected as are low and very low-income tenants. We support the change.

Section 503(d) eliminates default as a loophole for avoiding restriction on prepayment. The amendment is necessary because U.S.D.A. attorneys have ruled that, under existing law, once default and acceleration occur, a borrower has the right to prepay without restriction.

Section 503(e) improves the tests for prepayment by exception. We support the concept.

Section 504 reauthorizes the underserved areas setaside program for two years. It also provides two-year county designations as underserved (three years for Indian reservation counties). This is necessary since the first three years of the program have proved that it takes more time than one year to develop capacity in such counties, particularly for single family housing development and rehabilitation. Another important reason for this amendment, also related to time, is the fact that the fiscal year is usually half over when FmHA completes its statistical justification and publishes a new list of counties. That leaves only three to four months in which to package, approve, and process loans before the money is pulled back for general distribution.

Section 505 amends Section 510(g) to make eviction administratively appealable, as it was when FmHA first published tenant grievance and appeal rules. HAC strongly endorses the amendment as a necessary protection for tenants. This

process is carried on outside of the FmHA staffed appeal system and, therefore, not a time constraint or burden on the agency. We believe slightly modified language will improve the amendment.

Section 506(a) extends the nonprofit set-aside in Section 515 for another two years. HAC supports this and notes that funds unused through the set-aside are made available for private sector borrowers and not lost.

Section 506(b) amends Section 515 by adding a new subsection restricting sequential transfers to those determined in the best interest of tenants and government. HAC supports this.

Section 506(c) provides for streamlined refinancing of Section 515 loans. HAC recommends enactment, but again with slightly modified language.

Section 507(a) amends Section 521 to permit the use of rental assistance (RA) in its normal form, or as operating subsidies in Section 514/516 migrant farm labor projects. It is extremely difficult to obtain and document from migrant farmworkers the information necessary to carry out a regular RA program. Another justification for the amendment is the fact that migrant farmworkers often work sporadically. Requiring 30 percent of income during a short work period may actually cause a much larger expenditure of income for shelter. The use of operating subsidies will facilitate more use of Section 514/516 for migrants.

We do have a problem with the definition change for migrant farmworkers. This will open up tenancy to migrant food processing plant workers for the whole program, not just for Section 516(k). Our objection is not aimed at processing plant worker needs, but rather at the minimal (\$27 million) funding for the program. With so many farmworkers and so few dollars, broadening eligibility in this manner seems questionable.

Section 508 requires an annual report to Congress on where and to whom housing assistance has been provided. This will provide a formal record as to how well the targeting requirements in Section 532 have been met. It is a good idea. Congress and the public need to know how programs are being used and legal mandates met.

Section 509 provides a priority for use of rural housing vouchers by rent burdened tenants in FmHA financed rental housing. It also enables the use of vouchers as project-based. HAC agrees with the concept, and has always felt that portfolio needs should be addressed first.

Section 510 adds a Native American Rural Housing Capacity Demonstration. HAC strongly endorses this effort, and has specifically addressed it in the body of its testimony.

Section 511 adds a new rural community development section designed to increase the capacity of community-based organizations to develop affordable housing. We support this initiative as another incremental tool for improving the delivery of affordable housing in rural America. However, the matching requirement of three private to one public dollar may make participation difficult.

Section 512 is a demonstration where FmHA will delegate loan making, processing and servicing authority to approved nonprofits in targeted under served areas.

HAC suggests that one additional amendment be added to streamline refinancing in the Section 502 program, much as it is being proposed for Section 515 within HR 3838. It is our understanding that FmHA will support this amendment.

HOUSING AND COMMUNITY DEVELOPMENT SUBCOMMITTEE HEARING  
FEBRUARY 24, 1994

QUESTION OF  
CONGRESSMAN BRUCE F. VENTO  
FOR HAC REPRESENTATIVE MOISES LOZA

1. In your written testimony, you mentioned concerns regarding rural homelessness. What would you recommend to improve the services for the homeless in rural areas this year?





(MR. LOZA)

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### **Recommendations for Improving Services for the Rural Homeless**

(Response to Question of Congressman Bruce F. Vento)

March 14, 1994

**1. Increase funding for the Rural Homelessness Grant Program (Title IV, Subtitle G of the Stewart B. McKinney Homeless Assistance Act).**

Homeless assistance providers in small towns and rural communities are not receiving their "fair share" of federal assistance. National competitions among urban and rural communities favor urban providers. The Rural Homelessness Grant Program was authorized to address this problem and should be fully funded.

**2. Hold HUD accountable to the set-aside and priority within set-aside requirements of subtitle G.**

During 1994 Rural Homelessness Grant Program activities will be funded through a \$20,000,000 "set-aside" of the Supportive Housing Program. HAC is concerned that without a separate appropriation for subtitle G, HUD will not apply the 50 percent set-aside for communities that have populations of less than 10,000 and the priority for communities with populations of less than 5,000.

**3. Provide permanent authorization and increased funding for the Section 515 Rural Rental Housing Program, as proposed in H.R. 3838.**

This program has the ability to serve the "poorest of the poor," those who are most likely to become homeless.

**4. Increase authorization and funding levels for Section 521, Rural Rental Assistance.**

Rental assistance is necessary in order to make projects truly affordable to at-risk families. HAC objects to the Administration's budget proposal, which would cut funding by 59.3 percent.

**5. Increase authorization levels for Sections 514/516, especially 516 (k).**

Migrant farmworkers are disproportionately represented among the homeless and near-homeless in rural areas.

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**6. Increase the effectiveness of the Farmers Home Administration's property disposition program (Transitional Housing for the Homeless).**

Title IV, subtitle G, Section 592 of the McKinney Act (as amended by the Housing and Community Development Act of 1992) provides for the lease or sale of FmHA housing inventory property as transitional housing for the homeless. Congress intended for the 1992 amendment to apply to both program and non program properties. However, the disposition program has never been implemented for program properties (excepting those that are held for 18 months or more). This has severely limited its effectiveness since more than 95 percent of FmHA's single family inventory consists of program properties. Additionally, nonprogram properties are often in unusable condition or poorly located.

HAC recommends that subsection (h) of Section 592, which states "The authority provided to the Secretary under this section shall be effective only to the extent approved in advance by the appropriations Acts," be removed due to its interference with the disposition of program property. The USDA Office of General Counsel has ruled that without appropriation acts FmHA does not have authority to implement Section 592. In reality, Section 592 is being implemented, just not for program properties where it is needed. Alternatively, Congress could take appropriation action. However, subsection (h) seems unnecessary; FmHA is not confined by such language for any other method of inventory disposition.

HAC also recommends that the Transitional Housing for the Homeless program be better marketed, to which the present Administration seems favorably inclined. The success of the program depends heavily on local FmHA officials' willingness to inform and work with homeless assistance providers. According to a GAO study, only three percent of surveyed homeless assistance organizations are familiar with the FmHA property disposition program. Eight-five percent of survey respondents who were aware of the program felt that FmHA outreach regarding the program was less than satisfactory.

**7. As recommended in the *Federal Plan to End Homelessness* (draft plan), establish a Low Income Housing Deduction, which would allow families eligible for the Earned Income Tax Credit to also factor housing cost burden into their credit calculation.**

This recommendation, which redresses a fundamentally unfair distribution of tax expenditures to more fortunate Americans who can afford to own a home, is applicable to many of the near-homeless in both urban and rural areas.

**8. Recognize rural homelessness as a national problem and fund research aimed at identifying rural solutions.**

According to the soon-to-be-released *Federal Plan to End Homelessness*, mention of homelessness in rural areas has been "all but absent in academic and policy debates." The plan itself says little about rural homelessness although it does mention that homelessness "is now spreading to rural and suburban areas previously believed to be immune." In fact, homelessness has not "spread" to rural areas. The population most likely to be homeless or near-homeless, the very poor, have always been disproportionately represented among rural communities. According to Census data, 16.3 percent of, or more than nine million, Americans living outside metropolitan areas had incomes below the poverty level in 1990. In comparison, the percentage of people in poverty in metropolitan areas and the nation as a whole were 12.7 and 13.5, respectively.

The characteristics of homeless persons presented in a draft of the federal plan obtained by HAC are based on urban studies. HAC has reviewed state and local studies on rural homelessness and concludes that there are significant socio-demographic differences between rural and urban homeless populations. Current federal definitions of homelessness and programs for providing assistance are based on situations in which the urban homeless are typically found. Urban models for identifying and, more important, alleviating homelessness will not always work in rural areas.

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**COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS**

ONE HUNDRED THIRD CONGRESS

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(202) 225-4247

February 22, 1994

The Honorable Henry Cisneros  
 Secretary of Housing and Urban Development  
 U.S. Department of Housing and Urban Development  
 451 Seventh Street, SW  
 Washington, DC 20410

Dear Secretary Cisneros:

We are writing to express our deep dismay and concern about the delay in implementing the mixed population provisions of the Housing and Community Development Act of 1992 (HCDA), and to reaffirm and clarify Congressional intent with regard to the provisions.

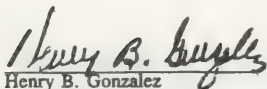
As you know, the Congress enacted the mixed populations provisions in response to the conflicts between seniors and younger disabled residents occurring in public and Federally assisted housing facilities. The legislation, signed into law on October 28, 1992, calls upon local public housing authorities (PHAs) to determine how best to accommodate the living styles of these divergent groups, and for PHAs to develop fair allocation plans. At this time, it is our understanding that housing authorities in Milwaukee and Minneapolis have submitted allocation plans, but the Department of Housing and Urban Development (HUD) has failed to review them.

It was Congress' clear and express intent that the mixed population provisions be implemented within six months of the enactment of the HCDA. To this end, we purposefully drafted precise and comprehensive statutory provisions in order to ensure that regulations would not be a prerequisite to HUD's acting on allocation plans. In fact, the law expressly mandates that the Secretary act on allocation plans and approve those which are reasonable. Given the language of the statute and the legislative history surrounding the HCDA, we fully expect HUD to review these allocation plans immediately and act in accordance with Congressional intent and the law.

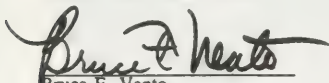


We thank you for your immediate attention to this critical matter.

Sincerely,



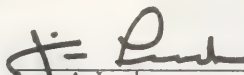
Henry B. Gonzalez  
Chairman  
Committee on Banking,  
Finance and Urban Affairs



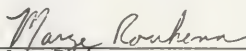
Bruce F. Vento  
Member of Congress



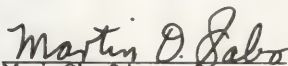
Barney Frank  
Member of Congress



James A. Leach  
Ranking Minority Member  
Committee on Banking,  
Finance and Urban Affairs



Marge Roukema  
Ranking Minority Member  
Subcommittee on Housing  
and Community Development



Martin Olav Sabo  
Chairman  
Committee on the Budget

# REPORT TO CLINTON SEES VAST EXTENT OF HOMELESSNESS

## HIGHER SPENDING SOUGHT

Draft Breaks With Recent Past  
on Both Scope of Problem  
and Federal Reply to It

By JASON DEPARLE  
Special to The New York Times

WASHINGTON, Feb. 16 — A draft of the Administration's plan to end homelessness says the problem is "far larger than commonly thought" and calls for spending large, though unspecified new sums on housing, mental health and tax credit programs.

The plan was ordered last spring by President Clinton and drafted by an interagency group headed by three Cabinet Secretaries. It represents a departure from a 12-year standoff between advocates for the homeless and Government officials about the scope and cause of homelessness.

If the draft is embraced by President Clinton, it would mark the first time the Government has called homelessness a large-scale problem that it must address with a large Federal response.

### Extent of the Problem

In what advocates for the homeless had called an effort to minimize the scope of the problem, Republican Administrations had said that about 600,000 Americans were homeless on any given night, with the majority suffering from drugs, drink or mental illness. The Administration's report, by contrast, endorses recent estimates that as many as seven million Americans were homeless at some point in the late 1980's.

And while the report agrees that drugs and mental illness are common among the homeless, it also argues that poverty, racism and past budgets are pushing many families into the ranks of the dispossessed.

"Homelessness has become a structural problem in America: chronic, continuous, large scale, complex," said Henry G. Cisneros, Secretary of Housing and Urban Development, who is chairman of the group drafting the plan.

### Revisions Possible

The vice chairmen are Donna E. Shalala, Secretary of Health and Human Services, and Jesse Brown, Secretary of Veterans Affairs. Mr. Cisneros agreed to discuss the plan today after an official from another agency provided a copy of the draft report to The New York Times.

The report is under review by the Office of Management and Budget and

## Draft Administration Report Sees Homelessness as a Vast Problem

(Continued from Page A1)

would oppose such cuts in housing assistance as well as make that clear. "The Government should be working at cross purposes," he said.

The homelessness plan raises a politically sensitive issue in housing, which has been a major campaign issue for more in housing subsidies than poor people do. The vehicle for the middle class and the poor is the mortgage interest deduction, which the plan said cost the Federal Treasury \$11 billion last year.

The report said 45 percent of the homeless are African American and 35 percent are white. The most affluent quarter of American taxpayers, who earn more than \$50,000 a year. The homeless are 45 percent African American and 35 percent white. The report said that the Government is misdirecting its resources.

The report says the emergency of mental hospitals and the rise of crack abuse have contributed to the homeless problem. But it also talks about the need for more housing, which leave many women in welfare unable to afford rents, and the decline in wages for working Americans without high school educations.

### People at Risk

"It's remarkable, in contrast to the recent past, that the scope and complexity of the homeless problem," said Martha Burt, an analyst with the Urban Institute, a Washington-based research center. By Andrew M. Cuomo, an assistant housing secretary, differentiates between two pools of people at risk of homelessness. One is the "invisible" pool, it says, are the addicts or mentally ill, many of whom inhabit public places.



Homeless people taking refuge from the cold yesterday in New York, near the United Nations. The larger, but often hidden, group it says when figuring the tax credits pile, the McKinley Act. It calls for services to homeless people, rather than Federal or local government provision. That potentially expensive housing program for the mentally ill, including aggressive efforts at "outreach efforts" to get disturbed people into treatment, program for homeless people. It also suggests (middle) housing, program for homeless people.

(Continued from Page A1)

other. "The House officials, who may revise... a meeting on Thursday before sending it on to the President. Administration officials conducted extensive consultations with academic experts and advocates. Many of whom are giving the draft many marks for its analysis of the problem.

It spent a lot of time about mental illness and about housing and poverty and racism, and Fred Karns, director of the National Coalition for the Homeless, said that the report was "a long time" to be reviewed.

The report titled "Priority Homelessness: A Plan to End Homelessness" is being reviewed by the Department of Housing and Urban Development. The report had kept pace with inflation since 1980. The department spends \$2.1 billion a year on aggressive housing development program, the report said.

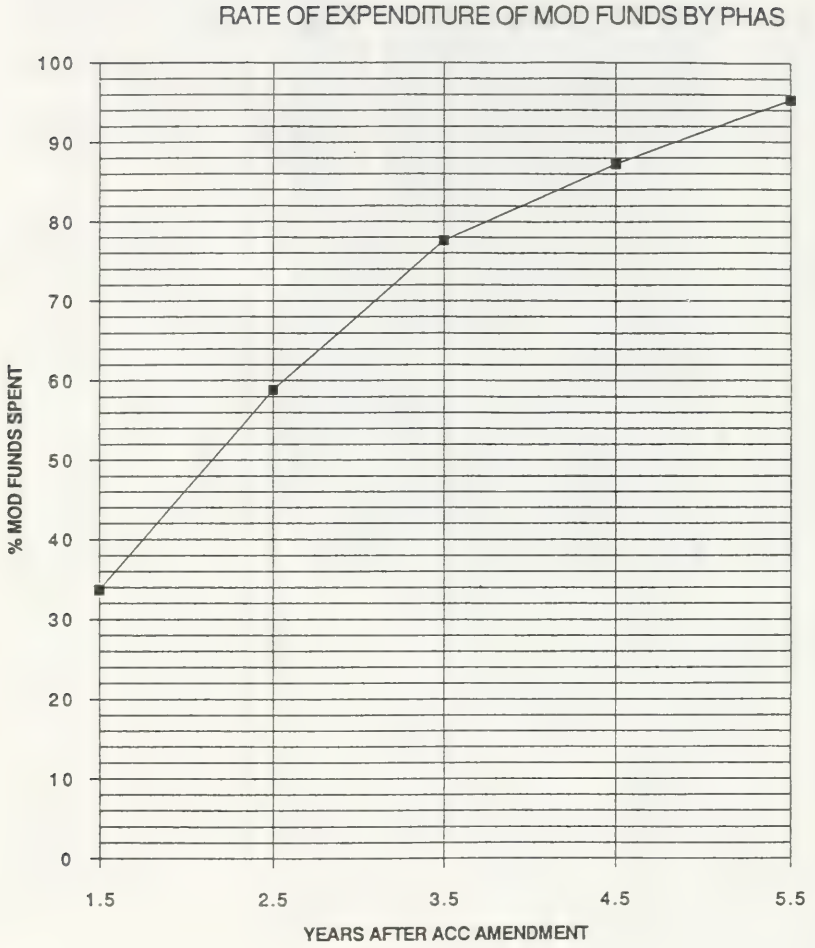
The report begs a question at the end: "How can we ensure that the money will be money come from?" This task force wants to increase spending in housing and homeless programs. Mr. Clinton's welfare plan recently suggested, in some of the same programs, to provide new programs for people in welfare.

Mr. Cisneros, who is not involved in the report, said he was not involved in the report.

(Cong. Frank)

MODERNIZATION STATUS REPORT AS OF 6/30/93 (Source: HUD)									
Federal Fiscal Year	Funds approved by HUD	Obligated by PHAs	Expended by PHAs	% Obligated	% Expended	Unobligated	Unexpended		
1988	\$1.774	\$1.712	\$1.579	96.51%	89.01%	\$0.062	\$0.195		
1989	\$1.647	\$1.541	\$1.274	93.56%	77.35%	\$0.108	\$0.373		
1990	\$1.976	\$1.590	\$1.151	80.47%	58.25%	\$0.386	\$0.825		
1991	\$2.498	\$1.401	\$0.737	56.08%	29.50%	\$1.097	\$1.761		
1992	\$2.602	\$0.450	\$0.335	17.29%	12.87%	\$2.162	\$2.267		
				Sub-total 1989-92 only		\$3.803	\$5.421		
				All years through 1992		\$3.830	\$5.580		
					1993				
				Cong. G. CMAP		\$2.565	\$2.565		
				CAP Comp Grant		\$0.327	\$0.327		
				Sub-total 1993		\$2.892	\$2.892		
				Total through 1993		\$6.722	\$8.472		
				Total less 1992 and 1993		\$1.678	\$3.313		

## EXPENDS CHART, 2/1/93



A CLPHA chart from HUD data



**The Department of Housing and Urban Development  
Fiscal Year 1995 Budget**

**February 7, 1994**

# FY 1995 Budget

(Billions of Dollars)

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350

	FY '94	FY '95	Difference
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Budget Authority	\$25.1	\$26.1	+ 1.0
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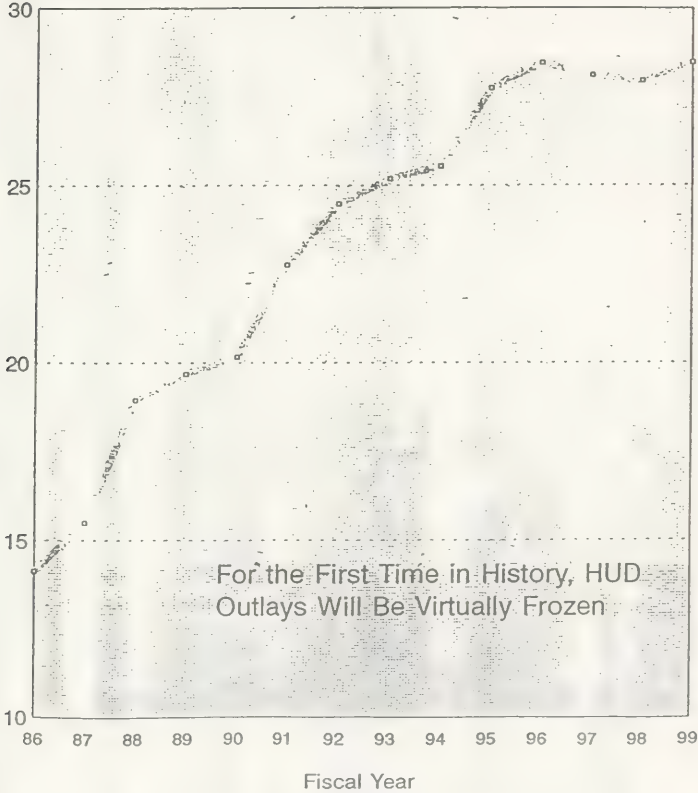
Outlays	\$27.5	\$29.5	+ 2.0
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# HUD Outlay Trends

## 1986-1999

HUD Outlays Have Consistently Increased Over Time

Billions of Dollars



Note: Includes both Discretionary and Mandatory Outlays

## HUD PRIORITIES

- Reduce Homelessness
- Turn Around Public Housing
- Expand Housing Production and Preserve the Supply of Affordable Housing
- Ensure Fair Housing for All Americans
- Help Communities Empower Themselves
- Bring Excellence to Management



PRIORITY: REDUCE HOMELESSNESS

(Millions of Dollars)

	<u>FY '94</u>	<u>FY'95</u>	<u>Difference</u>
McKinney Act	\$823	\$1,120	+ \$297
Section 8 Rental Assistance	<u>----</u>	<u>\$514</u>	<u>+ \$514</u>
Total HUD Assistance	\$823	\$1,634	+ \$811
FEMA	<u>\$130</u>	<u>\$130</u>	<u>----</u>
Grand Total	\$953	\$1,764	+ \$811

# PRIORITY: TURN AROUND PUBLIC HOUSING

(Millions of Dollars)

	<u>FY '94</u>	<u>FY '95</u>	<u>Difference</u>
Severely Distressed PH	\$778	\$500	- \$278
Modernization	\$3,230	\$2,786	- \$444
[Tenant Opportunity Program]	[\$25]	[\$85]	[+ \$60]
Operating Subsidies	\$2,620	\$2,496	- \$124
COMPAC	\$265	\$265	----
Jobs for Residents	\$88	\$134	+ \$46

# PRIORITY: ENSURE HOUSING PRODUCTION AND PRESERVE THE SUPPLY OF AFFORDABLE HOUSING

(Millions of Dollars)

	<u>FY '94</u>	<u>FY '95</u>	<u>Difference</u>
<b>Homeownership</b>			
Mutual Mortgage Ins. Fund	\$84,565	\$84,981	+ \$316
GNMA Mortgage-Backed Securities	\$130,000	\$130,000	----
Nat'l Homeownership Trust	----	\$100	+ \$100
Homeownership Counseling	\$12	\$50	+ \$38
HOPE Homeownership Grants	\$109	\$100	- \$9
<b>Rental</b>			
Incremental Rental Assistance	\$1,327	\$2,743	+ \$1,416
[Pension Fund Certificates]	[\$100]	[\$514]	[+ \$414]
Multifamily Insurance	\$15,436	\$19,685	+ \$4,249
HOME	\$1,275	\$1,000	- \$275

# **PRIORITY: ENSURE FAIR HOUSING FOR ALL AMERICANS**

(Millions of Dollars)

	<u>FY '94</u>	<u>FY '95</u>	<u>Difference</u>
Moving to Independence Counseling	----	\$149	+ \$149
Fair Housing Enforcement	\$25	\$33	+ \$8
Metropolitan-Wide Strategies	----	\$24	+ \$24
Persons with Disabilities	\$387	\$557	+ \$170



PRIORITY: HELP COMMUNITIES EMPOWER THEMSELVES

(Millions of Dollars)

	<u>FY '94</u>	<u>FY '95</u>	<u>Difference</u>
CDBG	\$4,400	\$4,400	----
[Neighborhood LIFT]	[----]	[\$200]	[+ \$200]
Empowerment Zones	----	\$500	+ \$500
Community Viability Fund	----	\$150	+ \$150
[NCDI]	[\$20]	[\$20]	[----]
Economic Revitalization	----	\$150	+ \$150
Colonias	----	\$100	+ \$100

**PRIORITY: BRING EXCELLENCE TO MANAGEMENT**

(Millions of Dollars)

	<u>FY '94</u>	<u>FY '95</u>	<u>Difference</u>
Staffing (FTEs)	13,290	13,374	+ 84
Training	\$6.4	\$8.1	+ \$1.7
Systems Development	\$48.5	\$55.0	+ \$6.5

# SAVINGS FROM PROGRAM REFORMS HIGHLIGHTS

(Millions of Dollars)

	<u>FY '95</u>	<u>Total FY '95-'99</u>
Verify Tenant Incomes	NA	(\$1,586.0)
Reduce Section 8 Fair Market Rents	(\$28.5)	(\$567.3)
Limit High-Cost Units (New Construction/ Substantial Rehabilitation)	(\$110.0)	(\$1,430)
Refinance High Debt	(\$2.0)	(\$110.0)
Decrease Loan Management Units	(\$55.0)	(\$818.0)
Reduce Section 8 Admin. Fees	(\$86.8)	(\$461.5)
Cap Rent Increases for "Stayers"	(\$77.0)	(\$881.0)
Create New Federal Preference for Working Families	(\$77.4)	(\$990.9)

# OTHER PROGRAM REDUCTIONS

(Millions of Dollars)

	<u>FY '94</u>	<u>FY '95</u>	<u>Reduction</u>
Preservation	\$541	----	- \$541
PH Development	\$598	\$150	- \$448
Elderly Housing	\$1,158	\$150	- \$1,008
Lead-Based Paint Reduction	\$150	\$100	- \$50
Congregate Services	\$25	\$6	- \$19



## A REORGANIZED HUD

- Customer Driven
- Direct Program Accountability
- Delegations to the Field
- Consolidated Processing
- No RIFS
- FTE Figures Depend on Buyout Legislation

## A HUD FOR THE 1990'S

362

- Disciplined
- Entrepreneurial
- Innovative
- Ethical
- A Partner with America's Communities

Hon. Cisneros' Response to Colloquy with Cong. Roukema  
regarding Homeless

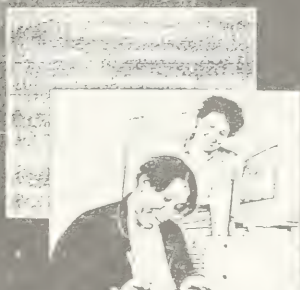
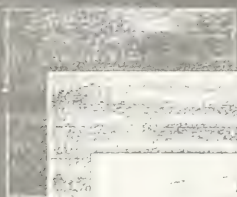
Homeless Increase Question Posed During Hearing By  
Congresswoman Marge Roukema  
(February 24, 1994 Hearing)

Question: (Referring to people who lose their housing and become  
homeless:) Has that percentage been growing?

Answer: Attached is an excerpt from the Federal Plan which  
discusses the scale of contemporary homelessness.

# Priority: Home!

The Federal Plan to  
Break the Cycle of  
Homelessness





## 2. The Scale of Contemporary Homelessness

Accurately measuring the scope and magnitude of "residential instability" (Sosin et al., 1990)—with homelessness as its most extreme manifestation—has proven controversial. The debate has ranged from which definition of homelessness is most appropriate to the limitations of or biases in various research methods used to estimate the size of the homeless population. Our understanding has evolved as data collection techniques have advanced from single-day or one-week counts to computerized annual (or longer time frame) unduplicated counts. Strikingly, when researchers turn to charting the use of shelters over time, a picture of widespread vulnerability to homelessness emerges. The changes discussed in this Plan have had profound impact on the ability of people, especially poor people, to maintain stable housing.

### Point-in-time Estimates

Early methodologies for taking the measure of homelessness depended upon one-time counts in shelters, soup kitchens, other service sites, and street settings. Such counts are referred to as "point prevalence" counts, since they capture only those people homeless at a specific point in time. One such widely cited figure for a national point-in-time estimate was generated by an Urban Institute study. Researchers found that as many as 600,000 people were homeless during a seven-day period in March 1987 (Burt and Cohen, 1989).

These narrow frame pictures were, until recently, the most comprehensive we had. However, such "snapshot" counts and the descriptions of homeless people based upon them can be highly misleading if they are taken to imply that the homeless population is a static one. In fact, as recent analyses have shown, large numbers of people flow through shelters over time.

### Estimates Over Time

Studies completed only in the last year have used sophisticated local administrative recordkeeping systems to yield new insights into the dynamics of homelessness by measuring turnover in shelters. These new studies suggest that the number of individuals and families who experience at least one episode of homelessness during longer intervals (typically one to five years) may exceed the best estimates of single-shot street and shelter counts by a factor of ten or more.

- A recent study of shelter systems in New York City and Philadelphia documents the large turnover of persons using shelters (Culhane et al., 1993). For example, in New York, a single shelter bed accommodates four different persons each year. The one-day and one-, three- and five-year counts of persons in shelters were 23,000; 86,000; 162,000; and 240,000 persons, respectively.
- The turnover in the Philadelphia shelters is even more dramatic, with each bed accommodating six persons per year. The one-day, one- and three-year counts were 2,500, 15,000 and 43,000 persons, respectively (Culhane et al., 1993).
- Analysis of annual counts in other cities such as Columbus, OH, and St. Paul, MN, and in the State of Rhode Island reveal similar patterns of turnover (Burt, 1993).

The New York City analysis found that the number of homeless persons using public shelters over periods of three and five years amounted to 2.2 and 3.3 percent of the city's population, respectively.<sup>1</sup> For Philadelphia the percentage of persons using shelters over three years was three percent of that city's population.

The results of local studies of shelter turnover converge with those of a recent national study. A nationwide telephone survey of more than 1,500 (currently housed) adult Americans found that over three percent of those interviewed had been homeless at some point between 1985 and 1990 (Link et al., 1993). In this sample, the confidence interval of the estimate ranged from 2.3 percent to 4.4 percent of the adult population.

Thus, based on these samples, the number of *adults* experiencing homelessness was between four and eight million at some point in the latter half of the 1980s.<sup>2</sup> When the

---

<sup>1</sup>Further confirmation of the magnitude of recent homelessness in New York is provided by the 1991 Housing and Vacancy Report for that city. Among housed residents in New York in early 1991, 176,000—or three percent of the total—had experienced at least one bout of homelessness in the previous five years. (For purposes of the study, persons were considered to have experienced homelessness if they came to that dwelling unit during the last five years "from a temporary residence such as a friend's or relative's home, shelter, transitional center, or hotel" [p.45]). At the time of the study, 14 percent of those who reported prior homelessness were living in doubled-up situations (Stegman, 1993).

<sup>2</sup>As the Link study was performed by a telephone survey, it did not reach or include people currently homeless and households without telephones. If these adjustments were made the estimate would likely be higher. The study did not report in any way the cause or reason for the person's homelessness.

number of *children* is added, the range for the *total* population is 4.95 million to 9.32 million, with a mid-point of approximately *seven million*.<sup>3</sup>

But even these estimates of the number of persons experiencing homelessness do not take into account the large number of extremely vulnerable persons who are on the edge of homelessness. *There are approximately 1.2 million families on public housing waiting lists and an additional one million awaiting Section 8 vouchers.* There are also those who are involuntarily doubled up with friends and relatives, and those who are paying more than 50 percent of their income for rent.

*The clear point is that recent studies confirm that the number of persons who have experienced homelessness is very large and greater than previously known or acknowledged.* This supports several basic thrusts of this report. To make real inroads into reducing homelessness we need to make real progress in reducing poverty and providing adequate affordable housing for those who are on the edge of homelessness. And we need to step up our efforts to prevent homelessness by those who are living on the edge.

#### The Impact of Time Frames and Turnover on Assessing Characteristics

The distinction between point-in-time estimates and estimates over time is important when analyzing the characteristics of homeless populations and designing policy responses. People suffering from any of a number of disabling conditions are less likely to exit from homelessness, and thus are more likely to appear in studies conducted over brief time frames. As a result, most "snapshot" accounts of those in shelters and on the streets include disproportionate numbers of people with chronic disabilities or other problems that make it difficult for them to live independently. Although the severely mentally ill, for example, make up between a quarter and one-half of the literally homeless single population on any given day, they comprise a much smaller percentage—between 5 and 25 percent—of those in the course of a year (Burt, 1994). The more dynamic view, exemplified by the studies reviewed above, suggests that many people are at risk of being homeless for short periods, often simply because their incomes are very low and their family savings and other sources of support in hard times are insufficient.

A better understanding of the dynamics of residential instability over time would reveal more about the relationship between short- and longer-term homelessness, including how frequently and under what conditions one leads to the other. The analysis thus far in this

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<sup>3</sup>The number of children is estimated at 15 percent of the total homeless population (Burt and Cohen, 1989) and applied to the adult population estimates (Link et al, 1993).



(MR. LOZA)

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March 8, 1994

**ANALYSIS OF PROPOSED CHANGES  
IN PROPORTION OF INCOME PAID BY  
FARMERS HOME ADMINISTRATION SECTION 502 BORROWERS**

Low- and very low-income families purchasing homes with mortgages provided by the Farmers Home Administration (FmHA) would be required to pay 30 percent of their incomes for mortgage principal, interest, taxes, and insurance (PITI) under a proposal included in the Clinton Administration's budget request for fiscal 1995. Currently, borrowers pay 20 percent for PITI. The Housing Assistance Council (HAC) has analyzed the effects of this proposed change, and finds that it would very directly harm those intended to be assisted by FmHA's homeownership program.

The program, known as the Section 502 program, provides loans to rural low- and very low-income households (those with incomes below 80 and 50 percent of area median incomes, respectively). The program enables families with remarkably low incomes -- for example, \$8,500 in rural Mississippi -- to participate in the American dream of homeownership. The rationale for increasing the required PITI payment seems to be that it would put 502 borrowers on a par with tenants in federally assisted rental housing, who are required to pay 30 percent of their income for monthly housing costs. This is not true, however, for a simple reason: the 30 percent of income paid by tenants includes utilities and maintenance expenses, but those costs are not included in the 20 percent requirement for homeowners. When utility and maintenance costs are added to the 20 percent already paid by Section 502 borrowers, many (if not most) are *already* paying over 30 percent of their income for shelter.

HAC's analysis has determined that instituting the Administration's 30 percent proposal would harm both current and future low-income rural residents intended to be helped by the 502 program.<sup>1</sup>

- In every one of the geographic areas HAC examined, sample families currently paying 20 percent for PITI are paying more than 30 percent of their income for

---

<sup>1</sup> There are three parts to HAC's analysis. Table 1 summarizes the percentages of income required for total shelter costs (PITIUM) in specific locations under the current Section 502 program, the current program using deferred mortgage payments, and the proposed program. Table 2 shows the incomes in those areas at which families would be eligible for 1 percent loans under the budget proposal, and what proportions of their incomes those families would pay for PITIUM. Appendix A provides the third part of the analysis -- calculations of the impact of the current program, the deferred mortgage program, and the proposed change.

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principal, interest, taxes, insurance, utilities (including heat), and maintenance (PITTUM).

- When the proposed 30 percent for PITI is applied to the same sample families, they would pay between 41.9 and 52.8 percent of their income for PITTUM. Therefore many of those already participating in the program could be forced into default, resulting not only in calamity for the families but also in a financial loss to the government.
- Under the proposed new standard, potential borrowers qualifying for 1 percent Section 502 loans would have incomes so low that it would not be feasible for them to make the monthly payments. Their participation in the program would require them to pay from 50.1 to 61.6 percent of their very limited incomes for PITTUM, leaving insufficient funds available for food, clothing, transportation, medical costs, taxes, and other living expenses and debts.
- At the same time, because there is a distinction between the income level needed to *qualify* for a 1 percent 502 loan and the income level at which meeting the costs of homeownership is actually *possible*, the level of household income needed to make participation in the 502 program viable would increase dramatically.
- The Section 502 deferred mortgage program would be largely useless. It applies to households with incomes so low they cannot qualify for a 38-year loan at 1 percent interest. Under the new standard, however, borrowers with incomes low enough to qualify for deferrals could not actually afford Section 502 loans; even with 25 percent of the loan amount deferred, most could not meet the monthly payments.<sup>2</sup>

Given these results, the 30 percent proposal would be a dramatic step backwards in the targeting of FmHA housing funds to those most in need. Congress has required FmHA to target its assistance to those with "the greatest housing assistance needs because of their low income and their residing in inadequate dwellings" (Housing Act of 1949, Section 532(a)). This requirement could not in practice be observed if the 30 percent rule were adopted.

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<sup>2</sup> The deferred mortgage program, currently in effect through the end of fiscal 1994, would be made permanent by Section 502(b) of H.R. 3838. HAC strongly supports this program, which puts homeownership within reach for families with incomes too low to qualify even for the regular 502 program.

**TABLE 1**  
**PERCENTAGES OF INCOME REQUIRED FOR PITIUM,**  
**SECTION 502 HOMEOWNERSHIP LOANS**

Location	Income (\$)	Percent of Income for PITIUM*		
		@ 20% for PITI**	@ 20% plus deferred mortgage	@ 30% for PITI
Arkansas	12,000	35.9	N/A	45.9
Arkansas	11,000	38.5	35.2	47.4
Tulare County, California	13,400	35.7	N/A	45.7
Tulare County, California	12,000	39	35.3	47.5
Sussex County, Delaware	14,200	37.5	N/A	47.5
Sussex County, Delaware	13,000	39.9	35.7	49.1
Citrus County, Florida	10,500	39.8	N/A	49.8
Citrus County, Florida	9,500	42.7	38.8	51.9
Elbert County, Georgia	11,000	34.2	N/A	44.2
Elbert County, Georgia	9,500	39.3	35.3	46.4
Newton County, Iowa	15,200	31.9	N/A	41.9
Newton County, Iowa	14,200	33.5	30.4	42.8
Kennebec County, Maine	18,500	34.7	N/A	44.7
Kennebec County, Maine	16,500	38.1	34.5	46.5
Worcester County, Maryland	14,500	35.2	N/A	45.2
Worcester County, Maryland	12,700	39.2	35.4	47.3
Coahoma County, Mississippi	9,500	36.7	N/A	46.7
Coahoma County, Mississippi	8,500	40.3	36.7	48.7
Otuo	12,500	32.6	N/A	42.6
Otuo	11,000	35.6	31.6	44.3
Charles Mix County, S. Dak	12,000	39	N/A	49.0
Charles Mix County, S. Dak	10,000	44	41.2	52.8
Brown County, Texas	13,500	34.9	N/A	44.9
Brown County, Texas	12,000	38.3	35.3	46.8

\* Principal, interest, taxes, insurance, utilities (including heat) and maintenance. Roughly equivalent to tenant shelter payments less management costs.

\*\* Principal, interest, taxes and insurance.

**TABLE 2**  
**INCOME REQUIRED TO QUALIFY**  
**FOR A 1 PERCENT 38 YEAR SECTION 502 LOAN**  
**AND PERCENT OF THAT INCOME NEEDED FOR PITIUM\***

<b>Location</b>	<b>PITI** with a 1% loan (\$)</b>	<b>Affordable income @ 30% for PITI (\$)</b>	<b>PITIUM (\$)</b>	<b>Percent income for PITIUM (%)</b>
Arkansas	2,329	7,764	4,239	54.6
Tulare Co., CA	2,579	8,597	4,682	54.5
Sussex Co., DE	2,706	9,020	5,186	57.5
Citrus Co., FL	1,973	6,577	4,053	61.6
Elbert Co., GA	2,171	7,237	3,731	51.6
Newton Co., IA	2,946	9,820	4,757	48.4
Kennebec Co., ME	3,560	11,687	6,285	53
Worcester Co., MD	2,778	9,260	4,977	53.7
Coahoma Co., MS	1,839	6,130	3,429	55.9
Ohio	2,343	7,810	3,913	50.1
Charles Mix Co., SD	2,121	7,070	4,401	62.2
Brown Co., TX	2,575	8,583	4,591	53.5

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\* Principal, interest, taxes, insurance, utilities (including heat) and maintenance. Roughly equivalent to tenant shelter payments less management costs.

\*\* Principal, interest, taxes and insurance.

## METHODOLOGY

To study the impact of changing the proportion of income required to be paid by Section 502 borrowers from 20 percent to 30 percent, the Housing Assistance Council (HAC) obtained figures on costs and incomes from housing organizations or Farmers Home Administration (FmHA) officials working in the actual areas surveyed. HAC requested figures on mortgage amounts and on costs for taxes and insurance, utilities, and maintenance. Most local organizations or FmHA offices provided figures for specific counties. The data for Arkansas and Ohio were not tied to individual counties.

The numbers obtained for maintenance costs varied so widely that HAC arbitrarily used 1 percent of mortgage amount per annum, an admittedly conservative estimate. All other figures were used as provided. HAC used FmHA methods to calculate qualifying incomes and annual mortgage payments at 1 percent (the subsidized payment) and at 6.5 percent (the current market rate payment).

The initial analysis for each of the locations utilized the methodology actually used by FmHA to determine amounts of interest credit subsidy. Incomes selected as examples were those slightly lower than needed to qualify currently for a 1 percent 38 year loan and those somewhat higher. Calculations were performed for three different scenarios: (1) with interest credit subsidy based on 20 percent of income for principal, interest, taxes and insurance (PITI); (2) the same 20 percent requirement but at an income level at which the household qualifies for deferred mortgage payment (up to 25 percent of a 38-year 1 percent loan is deferred); and (3) with interest credit subsidy based on 30 percent of income for PITI (this is the proposal included in the Clinton Administration's budget).



## APPENDIX A

The Effect of Changing from 20% to 30% of Income for PITI (1)			
as a Basis for Determining Interest Credit Subsidy in the			
FmHA Section 502 Home Ownership Loan Program			
Arkansas			
<b>A. Givens</b>			
1	Mortgage	\$47,000	
2	Annual Mortgage Payment @ 1% for 38 years	\$1,489	
3	Annual Taxes and Insurance	\$840	
4	Annual Heat and Utility	\$1,440	
5	Annual Maintenance @ 1% of Mortgage (2)	\$470	
6	Annual Family Income	\$12,000	
7	Annual Mortgage Payment @ 6.5%	\$3,345	
<b>B. Calculations</b>			
		<b>20% for PITI</b>	<b>30% for PITI</b>
1	Mortgage Payment @ 6.5%	\$3,345	\$3,345
2	Taxes and Insurance	\$840	\$840
3	PITI	\$4,185	\$4,185
4	Less Allotted % of Income	\$2,400	\$3,600
5	Balance	\$1,785	\$585
6	Actual Mortgage Payment (3)	\$1,560	\$2,760
7	Heat, Utilities and Maintenance	\$1,910	\$1,910
8	PITIUM (4)	\$4,310	\$5,510
9	Percent Income, PITIUM	35.9%	45.9%
10	Actual payment after deferral (5)	n/a	n/a
11	Revised PITI	n/a	n/a
12	Revised PITIUM	n/a	n/a
13	Percent Income, PITIUM	n/a	n/a
(1) Principal, Interest, Taxes, and Insurance			
(2) Conservative estimate. Actual cost probably 1.25% to 1.5%.			
(3) The actual payment is the greater of 1) the difference between the balance and mortgage payment @ 6.5% and 2) the mortgage payment @ 1%			
(4) Principal, Interest, Taxes, Insurance, Utilities (incl. heat) and Maintenance			
(5) Deferral can be up to 25% of mort. payment @ 1% for 38 years. Limited to fams. with inc. at or below 50% of median.			

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The Effect of Changing from 20% to 30% of Income for PITI (1)			
as a Basis for Determining Interest Credit Subsidy in the			
FmHA Section 502 Home Ownership Loan Program			
Arkansas			
<b>A. Givens</b>			
1	Mortgage	\$47,000	
2	Annual Mortgage Payment @ 1% for 38 years	\$1,489	
3	Annual Taxes and Insurance	\$840	
4	Annual Heat and Utility	\$1,470	
5	Annual Maintenance @ 1% of Mortgage (2)	\$470	
6	Annual Family Income	\$11,000	
7	Annual Mortgage Payment @ 6.5%	\$3,345	
<b>B. Calculations</b>			
		20% for PITI	30% for PITI
1	Mortgage Payment @ 6.5%	\$3,345	\$3,345
2	Taxes and Insurance	\$840	\$840
3	PITI	\$4,185	\$4,185
4	Less Allotted % of Income	\$2,200	\$3,300
5	Balance	\$1,985	\$885
6	Actual Mortgage Payment (3)	\$1,489	\$2,460
7	Heat, Utilities and Maintenance	\$1,910	\$1,910
8	PITIUM (4)	\$4,239	\$5,210
9	Percent Income, PITIUM	38.5%	47.4%
10	Actual payment after deferral (5)	\$1,117	n/a
11	Revised PIT	\$1,957	n/a
12	Revised PITIUM	\$3,867	n/a
13	Percent Income, PITIUM	35.2%	n/a
(1) Principal, Interest, Taxes, and Insurance			
(2) Conservative estimate. Actual cost probably 1.25% to 1.5%.			
(3) The actual payment is the greater of 1) the difference between the balance and mortgage payment @ 6.5% and 2) the mortgage payment @ 1%			
(4) Principal, Interest, Taxes, Insurance, Utilities (incl. heat) and Maintenance			
(5) Deferral can be up to 25% of mort. payment @ 1% for 38 years. Limited to farms. with inc. at or below 50% of median.			

The Effect of Changing from 20% to 30% of Income for PITI (1)			
as a Basis for Determining Interest Credit Subsidy in the			
FmHA Section 502 Home Ownership Loan Program			
Tulare, Ca.			
<b>A. Givens</b>			
1	Mortgage	\$55,500	
2	Annual Mortgage Payment @ 1% for 38 years	\$1,758	
3	Annual Taxes and Insurance	\$820	
4	Annual Heat and Utility	\$1,548	
5	Annual Maintenance @ 1% of Mortgage (2)	\$555	
6	Annual Family Income	\$13,400	
7	Annual Mortgage Payment @ 6.5%	\$3,949	
<b>B. Calculations</b>			
		<b>20% for PITI</b>	<b>30% for PITI</b>
1	Mortgage Payment @ 6.5%	\$3,949	\$3,949
2	Taxes and Insurance	\$820	\$820
3	PITI	\$4,769	\$4,769
4	Less Allotted % of Income	\$2,680	\$4,020
5	Balance	\$2,089	\$749
6	Actual Mortgage Payment (3)	\$1,860	\$3,200
7	Heat, Utilities and Maintenance	\$2,103	\$2,103
8	PITIUM (4)	\$4,783	\$6,123
9	Percent Income, PITIUM	35.7%	45.7%
10	Actual payment after deferral (5)	n/a	n/a
11	Revised PITI	n/a	n/a
12	Revised PITIUM	n/a	n/a
13	Percent Income, PITIUM	n/a	n/a
(1) Principal, Interest, Taxes, and Insurance			
(2) Conservative estimate. Actual cost probably 1.25% to 1.5%.			
(3) The actual payment is the greater of 1) the difference between the balance and mortgage payment @ 6.5% and 2) the mortgage payment @ 1%			
(4) Principal, Interest, Taxes, Insurance, Utilities (incl. heat) and Maintenance			
(5) Deferral can be up to 25% of mort. payment @ 1% for 38 years. Limited to farms with inc. at or below 50% of median.			

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The Effect of Changing from 20% to 30% of Income for PITI (1)			
as a Basis for Determining Interest Credit Subsidy in the			
FmHA Section 502 Home Ownership Loan Program			
Tulare, Ca.			
<b>A. Givens</b>			
1	Mortgage	\$55,500	
2	Annual Mortgage Payment @ 1% for 38 years	\$1,758	
3	Annual Taxes and Insurance	\$820	
4	Annual Heat and Utility	\$1,548	
5	Annual Maintenance @ 1% of Mortgage (2)	\$555	
6	Annual Family Income	\$12,000	
7	Annual Mortgage Payment @ 6.5%	\$3,949	
<b>B. Calculations</b>			
		<b>20% for PITI</b>	<b>30% for PITI</b>
1	Mortgage Payment @ 6.5%	\$3,949	\$3,949
2	Taxes and Insurance	\$820	\$820
3	PITI	\$4,769	\$4,769
4	Less Allotted % of Income	\$2,400	\$3,600
5	Balance	\$2,369	\$1,169
6	Actual Mortgage Payment (3)	\$1,758	\$2,780
7	Heat, Utilities and Maintenance	\$2,103	\$2,103
8	PITIUM (4)	\$4,681	\$5,703
9	Percent Income, PITIUM	39.0%	47.5%
10	Actual payment after deferral (5)	\$1,319	n/a
11	Revised PITI	\$2,139	n/a
12	Revised PITIUM	\$4,242	n/a
13	Percent Income, PITIUM	35.3%	n/a
(1) Principal, Interest, Taxes, and Insurance			
(2) Conservative estimate. Actual cost probably 1.25% to 1.5%.			
(3) The actual payment is the greater of 1) the difference between the balance and mortgage payment @ 6.5% and 2) the mortgage payment @ 1%.			
(4) Principal, Interest, Taxes, Insurance, Utilities (incl. heat) and Maintenance			
(5) Deferral can be up to 25% of mort. payment @ 1% for 38 years. Limited to fams. with inc. at or below 50% of median.			



The Effect of Changing from 20% to 30% of Income for PITI (1)			
as a Basis for Determining Interest Credit Subsidy in the			
FmHA Section 502 Home Ownership Loan Program			
Sussex, De.			
<b>A. Givens</b>			
1	Mortgage	\$68,000	
2	Annual Mortgage Payment @ 1% for 38 years	\$2,154	
3	Annual Taxes and Insurance	\$550	
4	Annual Heat and Utility	\$1,800	
5	Annual Maintenance @ 1% of Mortgage (2)	\$680	
6	Annual Family Income	\$14,200	
7	Annual Mortgage Payment @ 6.5%	\$4,839	
<b>B. Calculations</b>			
		20% for PITI	30% for PITI
1	Mortgage Payment @ 6.5%	\$4,839	\$4,839
2	Taxes and Insurance	\$550	\$550
3	PITI	\$5,389	\$5,389
4	Less Allotted % of Income	\$2,840	\$4,260
5	Balance	\$2,549	\$1,129
6	Actual Mortgage Payment (3)	\$2,290	\$3,710
7	Heat, Utilities and Maintenance	\$2,480	\$2,480
8	PITIUM (4)	\$5,320	\$6,740
9	Percent Income, PITIUM	37.5%	47.5%
10	Actual payment after deferral (5)	n/a	n/a
11	Revised PITI	n/a	n/a
12	Revised PITIUM	n/a	n/a
13	Percent Income, PITIUM	n/a	n/a
(1) Principal, Interest, Taxes, and Insurance			
(2) Conservative estimate. Actual cost probably 1.25% to 1.5%.			
(3) The actual payment is the greater of 1) the difference between the balance and mortgage payment @ 6.5% and 2) the mortgage payment @ 1%			
(4) Principal, Interest, Taxes, Insurance, Utilities (incl. heat) and Maintenance			
(5) Deferral can be up to 25% of mort. payment @ 1% for 38 years. Limited to fams. with Inc. at or below 50% of median.			

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The Effect of Changing from 20% to 30% of Income for PITI (1)			
as a Basis for Determining Interest Credit Subsidy in the			
FmHA Section 502 Home Ownership Loan Program			
Sussex, De.			
<b>A. Givens</b>			
1	Mortgage	\$68,000	
2	Annual Mortgage Payment @ 1% for 38 years	\$2,154	
3	Annual Taxes and Insurance	\$550	
4	Annual Heat and Utility	\$1,800	
5	Annual Maintenance @ 1% of Mortgage (2)	\$680	
6	Annual Family Income	\$13,000	
7	Annual Mortgage Payment @ 6.5%	\$4,839	
<b>B. Calculations</b>			
		<b>20% for PITI</b>	<b>30% for PITI</b>
1	Mortgage Payment @ 6.5%	\$4,839	\$4,839
2	Taxes and Insurance	\$550	\$550
3	PITI	\$5,389	\$5,389
4	Less Allotted % of Income	\$2,600	\$3,900
5	Balance	\$2,789	\$1,489
6	Actual Mortgage Payment (3)	\$2,154	\$3,350
7	Heat, Utilities and Maintenance	\$2,480	\$2,480
8	PITIUM (4)	\$5,184	\$6,380
9	Percent Income, PITIUM	39.9%	49.1%
10	Actual payment after deferral (5)	\$1,616	n/a
11	Revised PITI	\$2,166	n/a
12	Revised PITIUM	\$4,646	n/a
13	Percent income, PITIUM	35.7%	n/a
(1) Principal, Interest, Taxes, and Insurance			
(2) Conservative estimate. Actual cost probably 1.25% to 1.5%.			
(3) The actual payment is the greater of 1) the difference between the balance and mortgage payment @ 6.5% and 2) the mortgage payment @ 1%			
(4) Principal, Interest, Taxes, Insurance, Utilities (incl. heat) and Maintenance			
(5) Deferral can be up to 25% of mort. payment @ 1% for 38 years. Limited to fams. with inc. at or below 50% of median.			

The Effect of Changing from 20% to 30% of Income for PITI (1)			
as a Basis for Determining Interest Credit Subsidy in the			
FmHA Section 502 Home Ownership Loan Program			
Citrus, Fl.			
<b>A. Givens</b>			
1	Mortgage	\$46,000	
2	Annual Mortgage Payment @ 1% for 38 years	\$1,457	
3	Annual Taxes and Insurance	\$515	
4	Annual Heat and Utility	\$1,620	
5	Annual Maintenance @ 1% of Mortgage (2)	\$460	
6	Annual Family Income	\$10,500	
7	Annual Mortgage Payment @ 6.5%	\$3,273	
<b>B. Calculations</b>			
		<b>20% for PITI</b>	<b>30% for PITI</b>
1	Mortgage Payment @ 6.5%	\$3,273	\$3,273
2	Taxes and Insurance	\$515	\$515
3	PITI	\$3,788	\$3,788
4	Less Allotted % of Income	\$2,100	\$3,150
5	Balance	\$1,688	\$638
6	Actual Mortgage Payment (3)	\$1,585	\$2,635
7	Heat, Utilities and Maintenance	\$2,080	\$2,080
8	PITIUM (4)	\$4,180	\$5,230
9	Percent Income, PITIUM	39.8%	49.8%
10	Actual payment after deferral (5)	n/a	n/a
11	Revised PITI	n/a	n/a
12	Revised PITIUM	n/a	n/a
13	Percent Income, PITIUM	n/a	n/a
(1) Principal, Interest, Taxes, and Insurance			
(2) Conservative estimate. Actual cost probably 1.25% to 1.5%.			
(3) The actual payment is the greater of 1) the difference between the balance and mortgage payment @ 6.5% and 2) the mortgage payment @ 1%			
(4) Principal, Interest, Taxes, Insurance, Utilities (incl. heat) and Maintenance			
(5) Deferral can be up to 25% of mort. payment @ 1% for 38 years. Limited to fams. with inc. at or below 50% of median.			

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The Effect of Changing from 20% to 30% of Income for PITI (1)			
as a Basis for Determining Interest Credit Subsidy in the			
FmHA Section 502 Home Ownership Loan Program			
Citrus, Fl.			
<b>A. Givens</b>			
1	Mortgage	\$46,000	
2	Annual Mortgage Payment @ 1% for 38 years	\$1,457	
3	Annual Taxes and Insurance	\$515	
4	Annual Heat and Utility	\$1,620	
5	Annual Maintenance @ 1% of Mortgage (2)	\$460	
6	Annual Family Income	\$9,500	
7	Annual Mortgage Payment @ 6.5%	\$3,273	
<b>B. Calculations</b>			
		<b>20% for PITI</b>	<b>30% for PITI</b>
1	Mortgage Payment @ 6.5%	\$3,273	\$3,273
2	Taxes and Insurance	\$515	\$515
3	PITI	\$3,788	\$3,788
4	Less Allotted % of Income	\$1,900	\$2,850
5	Balance	\$1,888	\$938
6	Actual Mortgage Payment (3)	\$1,457	\$2,335
7	Heat, Utilities and Maintenance	\$2,080	\$2,080
8	PITIUM (4)	\$4,052	\$4,930
9	Percent Income, PITIUM	42.7%	51.9%
10	Actual payment after deferral (5)	\$1,093	n/a
11	Revised PITI	\$1,608	n/a
12	Revised PITIUM	\$3,688	n/a
13	Percent Income, PITIUM	38.8%	n/a
(1) Principal, Interest, Taxes, and Insurance			
(2) Conservative estimate. Actual cost probably 1.25% to 1.5%.			
(3) The actual payment is the greater of 1) the difference between the balance and mortgage payment @ 6.5% and 2) the mortgage payment @ 1%			
(4) Principal, Interest, Taxes, Insurance, Utilities (incl. heat) and Maintenance			
(5) Deferral can be up to 25% of mort. payment @ 1% for 38 years. Limited to fams. with inc. at or below 50% of median.			



The Effect of Changing from 20% to 30% of Income for PITI (1)			
as a Basis for Determining Interest Credit Subsidy in the			
FmHA Section 502 Home Ownership Loan Program			
Elbert, Ga.			
<b>A. Givens</b>			
1	Mortgage	\$48,000	
2	Annual Mortgage Payment @ 1% for 38 years	\$1,521	
3	Annual Taxes and Insurance	\$650	
4	Annual Heat and Utility	\$1,080	
5	Annual Maintenance @ 1% of Mortgage (2)	\$480	
6	Annual Family Income	\$11,000	
7	Annual Mortgage Payment @ 6.5%	\$3,416	
<b>B. Calculations</b>			
		20% for PITI	30% for PITI
1	Mortgage Payment @ 6.5%	\$3,416	\$3,416
2	Taxes and Insurance	\$650	\$650
3	PITI	\$4,066	\$4,066
4	Less Allotted % of Income	\$2,200	\$3,300
5	Balance	\$1,866	\$766
6	Actual Mortgage Payment (3)	\$1,550	\$2,650
7	Heat, Utilities and Maintenance	\$1,560	\$1,560
8	PITIUM (4)	\$3,760	\$4,860
9	Percent Income, PITIUM	34.2%	44.2%
10	Actual payment after deferral (5)	n/a	n/a
11	Revised PITI	n/a	n/a
12	Revised PITIUM	n/a	n/a
13	Percent Income, PITIUM	n/a	n/a
(1) Principal, Interest, Taxes, and Insurance			
(2) Conservative estimate. Actual cost probably 1.25% to 1.5%.			
(3) The actual payment is the greater of 1) the difference between the balance and mortgage payment @ 6.5% and 2) the mortgage payment @ 1%			
(4) Principal, Interest, Taxes, Insurance, Utilities (incl. heat) and Maintenance			
(5) Deferral can be up to 25% of mort. payment @ 1% for 38 years. Limited to fams. with inc. at or below 50% of median.			

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The Effect of Changing from 20% to 30% of Income for PITI (1)			
as a Basis for Determining Interest Credit Subsidy in the			
FmHA Section 502 Home Ownership Loan Program			
Elbert, Ga.			
<b>A. Givens</b>			
1	Mortgage	\$48,000	
2	Annual Mortgage Payment @ 1% for 38 years	\$1,521	
3	Annual Taxes and Insurance	\$650	
4	Annual Heat and Utility	\$1,080	
5	Annual Maintenance @ 1% of Mortgage (2)	\$480	
6	Annual Family Income	\$9,500	
7	Annual Mortgage Payment @ 6.5%	\$3,416	
<b>B. Calculations</b>			
		20% for PITI	30% for PITI
1	Mortgage Payment @ 6.5%	\$3,416	\$3,416
2	Taxes and Insurance	\$650	\$650
3	PITI	\$4,066	\$4,066
4	Less Allotted % of Income	\$1,900	\$2,850
5	Balance	\$2,166	\$1,216
6	Actual Mortgage Payment (3)	\$1,521	\$2,200
7	Heat, Utilities and Maintenance	\$1,560	\$1,560
8	PITIUM (4)	\$3,731	\$4,410
9	Percent Income, PITIUM	39.3%	46.4%
10	Actual payment after deferral (5)	\$1,140	n/a
11	Revised PITI	\$1,790	n/a
12	Revised PITIUM	\$3,350	n/a
13	Percent Income, PITIUM	35.3%	n/a
(1) Principal, Interest, Taxes, and Insurance			
(2) Conservative estimate. Actual cost probably 1.25% to 1.5%.			
(3) The actual payment is the greater of 1) the difference between the balance and mortgage payment @ 6.5% and 2) the mortgage payment @ 1%			
(4) Principal, Interest, Taxes, Insurance, Utilities (incl. heat) and Maintenance			
(5) Deferral can be up to 25% of mort. payment @ 1% for 38 years. Limited to fams. with inc. at or below 50% of median.			

The Effect of Changing from 20% to 30% of Income for PITI (1)			
as a Basis for Determining Interest Credit Subsidy in the			
FmHA Section 502 Home Ownership Loan Program			
Newton, Ia.			
<b>A. Givens</b>			
1	Mortgage	\$55,100	
2	Annual Mortgage Payment @ 1% for 38 years	\$1,746	
3	Annual Taxes and Insurance	\$1,200	
4	Annual Heat and Utility	\$1,260	
5	Annual Maintenance @ 1% of Mortgage (2)	\$551	
6	Annual Family Income	\$15,200	
7	Annual Mortgage Payment @ 6.5%	\$3,921	
<b>B. Calculations</b>			
		<b>20% for PITI</b>	<b>30% for PITI</b>
1	Mortgage Payment @ 6.5%	\$3,921	\$3,921
2	Taxes and Insurance	\$1,200	\$1,200
3	PITI	\$5,121	\$5,121
4	Less Allotted % of Income	\$3,040	\$4,560
5	Balance	\$2,081	\$561
6	Actual Mortgage Payment (3)	\$1,840	\$3,360
7	Heat, Utilities and Maintenance	\$1,811	\$1,811
8	PITIUM (4)	\$4,851	\$6,371
9	Percent Income, PITIUM	31.9%	41.9%
10	Actual payment after deferral (5)	n/a	n/a
11	Revised PITI	n/a	n/a
12	Revised PITIUM	n/a	n/a
13	Percent Income, PITIUM	n/a	n/a
(1) Principal, Interest, Taxes, and Insurance			
(2) Conservative estimate. Actual cost probably 1.25% to 1.5%.			
(3) The actual payment is the greater of 1) the difference between the balance and mortgage payment @ 6.5% and 2) the mortgage payment @ 1%			
(4) Principal, Interest, Taxes, Insurance, Utilities (incl. heat) and Maintenance			
(5) Deferral can be up to 25% of mort. payment @ 1% for 38 years. Limited to fams. with inc. at or below 50% of median.			

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The Effect of Changing from 20% to 30% of Income for PITI (1)			
as a Basis for Determining Interest Credit Subsidy in the			
FmHA Section 502 Home Ownership Loan Program			
Newton, Ia.			
<b>A. Givens</b>			
1	Mortgage	\$55,100	
2	Annual Mortgage Payment @ 1% for 38 years	\$1,746	
3	Annual Taxes and Insurance	\$1,200	
4	Annual Heat and Utility	\$1,260	
5	Annual Maintenance @ 1% of Mortgage (2)	\$551	
6	Annual Family Income	\$14,200	
7	Annual Mortgage Payment @ 6.5%	\$3,921	
<b>B. Calculations</b>			
		20% for PITI	30% for PITI
1	Mortgage Payment @ 6.5%	\$3,921	\$3,921
2	Taxes and Insurance	\$1,200	\$1,200
3	PITI	\$5,121	\$5,121
4	Less Allotted % of Income	\$2,840	\$4,260
5	Balance	\$2,281	\$861
6	Actual Mortgage Payment (3)	\$1,746	\$3,060
7	Heat, Utilities and Maintenance	\$1,811	\$1,811
8	PITIUM (4)	\$4,757	\$6,071
9	Percent Income, PITIUM	33.5%	42.8%
10	Actual payment after deferral (5)	\$1,309	n/a
11	Revised PITI	\$2,509	n/a
12	Revised PITIUM	\$4,320	n/a
13	Percent Income, PITIUM	30.4%	n/a
(1) Principal, Interest, Taxes, and Insurance			
(2) Conservative estimate. Actual cost probably 1.25% to 1.5%.			
(3) The actual payment is the greater of 1) the difference between the balance and mortgage payment @ 6.5% and 2) the mortgage payment @ 1%			
(4) Principal, Interest, Taxes, Insurance, Utilities (incl. heat) and Maintenance			
(5) Deferral can be up to 25% of mort. payment @ 1% for 38 years. Limited to farms with Inc. at or below 50% of median.			



The Effect of Changing from 20% to 30% of Income for PITI (1)			
as a Basis for Determining Interest Credit Subsidy in the			
FmHA Section 502 Home Ownership Loan Program			
Kennebec, Me.			
<b>A. Givens</b>			
1	Mortgage	\$74,500	
2	Annual Mortgage Payment @ 1% for 38 years	\$2,360	
3	Annual Taxes and Insurance	\$1,200	
4	Annual Heat and Utility	\$1,980	
5	Annual Maintenance @ 1% of Mortgage (2)	\$745	
6	Annual Family Income	\$18,500	
7	Annual Mortgage Payment @ 6.5%	\$5,301	
<b>B. Calculations</b>			
		<b>20% for PITI</b>	<b>30% for PITI</b>
1	Mortgage Payment @ 6.5%	\$5,301	\$5,301
2	Taxes and Insurance	\$1,200	\$1,200
3	PITI	\$6,501	\$6,501
4	Less Allotted % of Income	\$3,700	\$5,550
5	Balance	\$2,801	\$951
6	Actual Mortgage Payment (3)	\$2,500	\$4,350
7	Heat, Utilities and Maintenance	\$2,725	\$2,725
8	PITIUM (4)	\$6,425	\$8,275
9	Percent Income, PITIUM	34.7%	44.7%
10	Actual payment after deferral (5)	n/a	n/a
11	Revised PITI	n/a	n/a
12	Revised PITIUM	n/a	n/a
13	Percent Income, PITIUM	n/a	n/a
(1) Principal, Interest, Taxes, and Insurance			
(2) Conservative estimate. Actual cost probably 1.25% to 1.5%.			
(3) The actual payment is the greater of 1) the difference between the balance and mortgage payment @ 6.5% and 2) the mortgage payment @ 1%.			
(4) Principal, Interest, Taxes, Insurance, Utilities (incl. heat) and Maintenance			
(5) Deferral can be up to 25% of mort. payment @ 1% for 38 years. Limited to farms with inc. at or below 50% of median.			

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The Effect of Changing from 20% to 30% of Income for PITI (1)			
as a Basis for Determining Interest Credit Subsidy in the			
FmHA Section 502 Home Ownership Loan Program			
Kennebec, Me.			
<b>A. Givens</b>			
1	Mortgage	\$74,500	
2	Annual Mortgage Payment @ 1% for 38 years	\$2,360	
3	Annual Taxes and Insurance	\$1,200	
4	Annual Heat and Utility	\$1,980	
5	Annual Maintenance @ 1% of Mortgage (2)	\$745	
6	Annual Family Income	\$16,500	
7	Annual Mortgage Payment @ 6.5%	\$5,301	
<b>B. Calculations</b>			
		20% for PITI	30% for PITI
1	Mortgage Payment @ 6.5%	\$5,301	\$5,301
2	Taxes and Insurance	\$1,200	\$1,200
3	PITI	\$6,501	\$6,501
4	Less Allotted % of Income	\$3,300	\$4,950
5	Balance	\$3,201	\$1,551
6	Actual Mortgage Payment (3)	\$2,360	\$3,750
7	Heat, Utilities and Maintenance	\$2,725	\$2,725
8	PITIUM (4)	\$6,285	\$7,675
9	Percent Income, PITIUM	38.1%	46.5%
10	Actual payment after deferral (5)	\$1,770	n/a
11	Revised PITI	\$2,970	n/a
12	Revised PITIUM	\$5,695	n/a
13	Percent Income, PITIUM	34.5%	n/a
(1) Principal, Interest, Taxes, and Insurance			
(2) Conservative estimate. Actual cost probably 1.25% to 1.5%.			
(3) The actual payment is the greater of 1) the difference between the balance and mortgage payment @ 6.5% and 2) the mortgage payment @ 1%			
(4) Principal, Interest, Taxes, Insurance, Utilities (incl. heat) and Maintenance			
(5) Deferral can be up to 25% of mort. payment @ 1% for 38 years. Limited to fams. with inc. at or below 50% of median.			

The Effect of Changing from 20% to 30% of Income for PITI (1)				
as a Basis for Determining Interest Credit Subsidy in the				
FmHA Section 502 Home Ownership Loan Program				
Worcester, Md.				
<b>A. Givens</b>				
1	Mortgage	\$60,000		
2	Annual Mortgage Payment @ 1% for 38 years	\$1,901		
3	Annual Taxes and Insurance	\$877		
4	Annual Heat and Utility	\$1,599		
5	Annual Maintenance @ 1% of Mortgage (2)	\$600		
6	Annual Family Income	\$14,500		
7	Annual Mortgage Payment @ 6.5%	\$4,270		
<b>B. Calculations</b>			<b>20% for PITI</b>	<b>30% for PITI</b>
1	Mortgage Payment @ 6.5%	\$4,270	\$4,270	
2	Taxes and Insurance	\$877	\$877	
3	PITI	\$5,147	\$5,147	
4	Less Allotted % of Income	\$2,900	\$4,350	
5	Balance	\$2,247	\$797	
6	Actual Mortgage Payment (3)	\$2,023	\$3,473	
7	Heat, Utilities and Maintenance	\$2,199	\$2,199	
8	PITIUM (4)	\$5,099	\$6,549	
9	Percent Income, PITIUM	35.2%	45.2%	
10	Actual payment after deferral (5)	n/a	n/a	
11	Revised PITI	n/a	n/a	
12	Revised PITIUM	n/a	n/a	
13	Percent Income, PITIUM	n/a	n/a	
(1) Principal, Interest, Taxes, and Insurance				
(2) Conservative estimate. Actual cost probably 1.25% to 1.5%.				
(3) The actual payment is the greater of 1) the difference between the balance and mortgage payment @ 6.5% and 2) the mortgage payment @ 1%				
(4) Principal, Interest, Taxes, Insurance, Utilities (incl. heat) and Maintenance				
(5) Deferral can be up to 25% of mort. payment @ 1% for 38 years. Limited to fams. with inc. at or below 50% of median.				

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The Effect of Changing from 20% to 30% of Income for PITI (1)			
as a Basis for Determining Interest Credit Subsidy in the			
FmHA Section 502 Home Ownership Loan Program			
Worcester, Md.			
<b>A. Givens</b>			
1	Mortgage	\$60,000	
2	Annual Mortgage Payment @ 1% for 38 years	\$1,901	
3	Annual Taxes and Insurance	\$877	
4	Annual Heat and Utility	\$1,599	
5	Annual Maintenance @ 1% of Mortgage (2)	\$600	
6	Annual Family Income	\$12,700	
7	Annual Mortgage Payment @ 6.5%	\$4,270	
<b>B. Calculations</b>			
		20% for PITI	30% for PITI
1	Mortgage Payment @ 6.5%	\$4,270	\$4,270
2	Taxes and Insurance	\$877	\$877
3	PITI	\$5,147	\$5,147
4	Less Allotted % of Income	\$2,540	\$3,810
5	Balance	\$2,607	\$1,337
6	Actual Mortgage Payment (3)	\$1,901	\$2,933
7	Heat, Utilities and Maintenance	\$2,199	\$2,199
8	PITIUM (4)	\$4,977	\$6,009
9	Percent Income, PITIUM	39.2%	47.3%
10	Actual payment after deferral (5)	\$1,426	n/a
11	Revised PITI	\$2,303	n/a
12	Revised PITIUM	\$4,502	n/a
13	Percent Income, PITIUM	35.4%	n/a
(1) Principal, Interest, Taxes, and Insurance			
(2) Conservative estimate. Actual cost probably 1.25% to 1.5%.			
(3) The actual payment is the greater of 1) the difference between the balance and mortgage payment @ 6.5% and 2) the mortgage payment @ 1%			
(4) Principal, Interest, Taxes, Insurance, Utilities (incl. heat) and Maintenance			
(5) Deferral can be up to 25% of mort. payment @ 1% for 38 years. Limited to fams. with inc. at or below 50% of median.			



The Effect of Changing from 20% to 30% of Income for PITI (1)			
as a Basis for Determining Interest Credit Subsidy in the			
FmHA Section 502 Home Ownership Loan Program			
Coahoma, Ms.			
<b>A. Givens</b>			
1	Mortgage	\$39,000	
2	Annual Mortgage Payment @ 1% for 38 years	\$1,236	
3	Annual Taxes and Insurance	\$600	
4	Annual Heat and Utility	\$1,200	
5	Annual Maintenance @ 1% of Mortgage (2)	\$390	
6	Annual Family Income	\$9,500	
7	Annual Mortgage Payment @ 6.5%	\$2,775	
<b>B. Calculations</b>			
		20% for PITI	30% for PITI
1	Mortgage Payment @ 6.5%	\$2,775	\$2,775
2	Taxes and Insurance	\$600	\$600
3	PIT	\$3,375	\$3,375
4	Less Allotted % of Income	\$1,900	\$2,850
5	Balance	\$1,475	\$525
6	Actual Mortgage Payment (3)	\$1,300	\$2,250
7	Heat, Utilities and Maintenance	\$1,590	\$1,590
8	PITIUM (4)	\$3,490	\$4,440
9	Percent Income, PITIUM	36.7%	46.7%
10	Actual payment after deferral (5)	n/a	n/a
11	Revised PITI	n/a	n/a
12	Revised PITIUM	n/a	n/a
13	Percent Income, PITIUM	n/a	n/a
(1) Principal, Interest, Taxes, and Insurance			
(2) Conservative estimate. Actual cost probably 1.25% to 1.5%.			
(3) The actual payment is the greater of 1) the difference between the balance and mortgage payment @ 6.5% and 2) the mortgage payment @ 1%			
(4) Principal, Interest, Taxes, Insurance, Utilities (incl. heat) and Maintenance			
(5) Deferral can be up to 25% of mort. payment @ 1% for 38 years. Limited to fams. with inc. at or below 50% of median.			

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The Effect of Changing from 20% to 30% of Income for PITI (1)			
as a Basis for Determining Interest Credit Subsidy in the			
FmHA Section 502 Home Ownership Loan Program			
Coahoma, Ms.			
<b>A. Givens</b>			
1	Mortgage	\$39,000	
2	Annual Mortgage Payment @ 1% for 38 years	\$1,236	
3	Annual Taxes and Insurance	\$600	
4	Annual Heat and Utility	\$1,200	
5	Annual Maintenance @ 1% of Mortgage (2)	\$390	
6	Annual Family Income	\$8,500	
7	Annual Mortgage Payment @ 6.5%	\$2,775	
<b>B. Calculations</b>			
		20% for PITI	30% for PITI
1	Mortgage Payment @ 6.5%	\$2,775	\$2,775
2	Taxes and Insurance	\$600	\$600
3	PIT	\$3,375	\$3,375
4	Less Allotted % of Income	\$1,700	\$2,550
5	Balance	\$1,675	\$825
6	Actual Mortgage Payment (3)	\$1,236	\$1,950
7	Heat, Utilities and Maintenance	\$1,590	\$1,590
8	PITIUM (4)	\$3,426	\$4,140
9	Percent Income, PITIUM	40.3%	48.7%
10	Actual payment after deferral (5)	\$927	n/a
11	Revised PITI	\$1,527	n/a
12	Revised PITIUM	\$3,117	n/a
13	Percent Income, PITIUM	36.7%	n/a
(1) Principal, Interest, Taxes, and Insurance			
(2) Conservative estimate. Actual cost probably 1.25% to 1.5%.			
(3) The actual payment is the greater of 1) the difference between the balance and mortgage payment @ 6.5% and 2) the mortgage payment @ 1%			
(4) Principal, Interest, Taxes, Insurance, Utilities (incl. heat) and Maintenance			
(5) Deferral can be up to 25% of mort. payment @ 1% for 38 years. Limited to fams. with inc. at or below 50% of median.			

The Effect of Changing from 20% to 30% of Income for PITI (1)			
as a Basis for Determining Interest Credit Subsidy in the			
FmHA Section 502 Home Ownership Loan Program			
Ohio			
<b>A. Givens</b>			
1	Mortgage	\$55,000	
2	Annual Mortgage Payment @ 1% for 38 years	\$1,742	
3	Annual Taxes and Insurance	\$600	
4	Annual Heat and Utility	\$1,020	
5	Annual Maintenance @ 1% of Mortgage (2)	\$550	
6	Annual Family Income	\$12,500	
7	Annual Mortgage Payment @ 6.5%	\$3,914	
<b>B. Calculations</b>			
		20% for PITI	30% for PITI
1	Mortgage Payment @ 6.5%	\$3,914	\$3,914
2	Taxes and Insurance	\$600	\$600
3	PITI	\$4,514	\$4,514
4	Less Allotted % of Income	\$2,500	\$3,750
5	Balance	\$2,014	\$764
6	Actual Mortgage Payment (3)	\$1,900	\$3,150
7	Heat, Utilities and Maintenance	\$1,570	\$1,570
8	PITIUM (4)	\$4,070	\$5,320
9	Percent Income, PITIUM	32.6%	42.6%
10	Actual payment after deferral (5)	n/a	n/a
11	Revised PITI	n/a	n/a
12	Revised PITIUM	n/a	n/a
13	Percent Income, PITIUM	n/a	n/a
(1) Principal, Interest, Taxes, and Insurance			
(2) Conservative estimate. Actual cost probably 1.25% to 1.5%.			
(3) The actual payment is the greater of 1) the difference between the balance and mortgage payment @ 6.5% and 2) the mortgage payment @ 1%.			
(4) Principal, Interest, Taxes, Insurance, Utilities (incl. heat) and Maintenance			
(5) Deferral can be up to 25% of mort. payment @ 1% for 38 years. Limited to fams. with inc. at or below 50% of median.			

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The Effect of Changing from 20% to 30% of Income for PITI (1)			
as a Basis for Determining Interest Credit Subsidy in the			
FmHA Section 502 Home Ownership Loan Program			
Ohio			
<b>A. Givens</b>			
1	Mortgage	\$55,000	
2	Annual Mortgage Payment @ 1% for 38 years	\$1,742	
3	Annual Taxes and Insurance	\$600	
4	Annual Heat and Utility	\$1,020	
5	Annual Maintenance @ 1% of Mortgage (2)	\$550	
6	Annual Family Income	\$11,000	
7	Annual Mortgage Payment @ 6.5%	\$3,914	
<b>B. Calculations</b>			
		<b>20% for PITI</b>	<b>30% for PITI</b>
1	Mortgage Payment @ 6.5%	\$3,914	\$3,914
2	Taxes and Insurance	\$600	\$600
3	PITI	\$4,514	\$4,514
4	Less Allotted % of Income	\$2,200	\$3,300
5	Balance	\$2,314	\$1,214
6	Actual Mortgage Payment (3)	\$1,742	\$2,700
7	Heat, Utilities and Maintenance	\$1,570	\$1,570
8	PITIUM (4)	\$3,912	\$4,870
9	Percent Income, PITIUM	35.6%	44.3%
10	Actual payment after deferral (5)	\$1,307	n/a
11	Revised PITI	\$1,907	n/a
12	Revised PITIUM	\$3,477	n/a
13	Percent Income, PITIUM	31.6%	n/a
(1) Principal, Interest, Taxes, and Insurance			
(2) Conservative estimate. Actual cost probably 1.25% to 1.5%.			
(3) The actual payment is the greater of 1) the difference between the balance and mortgage payment @ 6.5% and 2) the mortgage payment @ 1%			
(4) Principal, Interest, Taxes, Insurance, Utilities (incl. heat) and Maintenance			
(5) Deferral can be up to 25% of mort. payment @ 1% for 38 years. Limited to fams. with inc. at or below 50% of median.			



The Effect of Changing from 20% to 30% of Income for PITI (1)			
as a Basis for Determining Interest Credit Subsidy in the			
FmHA Section 502 Home Ownership Loan Program			
Charles Mix, SD			
<b>A. Givens</b>			
1	Mortgage	\$36,000	
2	Annual Mortgage Payment @ 1% for 38 years	\$1,140	
3	Annual Taxes and Insurance	\$980	
4	Annual Heat and Utility	\$1,920	
5	Annual Maintenance @ 1% of Mortgage (2)	\$360	
6	Annual Family Income	\$12,000	
7	Annual Mortgage Payment @ 6.5%	\$2,562	
<b>B. Calculations</b>			
		20% for PITI	30% for PITI
1	Mortgage Payment @ 6.5%	\$2,562	\$2,562
2	Taxes and Insurance	\$980	\$980
3	PITI	\$3,542	\$3,542
4	Less Allotted % of Income	\$2,400	\$3,600
5	Balance	\$1,142	(\$58)
6	Actual Mortgage Payment (3)	\$1,420	\$2,620
7	Heat, Utilities and Maintenance	\$2,280	\$2,280
8	PITIUM (4)	\$4,680	\$5,880
9	Percent Income, PITIUM	39.0%	49.0%
10	Actual payment after deferral (5)	n/a	n/a
11	Revised PIT	n/a	n/a
12	Revised PITIUM	n/a	n/a
13	Percent Income, PITIUM	n/a	n/a
(1) Principal, Interest, Taxes, and Insurance			
(2) Conservative estimate. Actual cost probably 1.25% to 1.5%.			
(3) The actual payment is the greater of 1) the difference between the balance and mortgage payment @ 6.5% and 2) the mortgage payment @ 1%.			
(4) Principal, Interest, Taxes, Insurance, Utilities (incl. heat) and Maintenance			
(5) Deferral can be up to 25% of mort. payment @ 1% for 38 years. Limited to fams. with inc. at or below 50% of median.			

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The Effect of Changing from 20% to 30% of Income for PITI (1) as a Basis for Determining Interest Credit Subsidy in the FmHA Section 502 Home Ownership Loan Program			
Charles Mix, SD			
<b>A. Givens</b>			
1	Mortgage	\$36,000	
2	Annual Mortgage Payment @ 1% for 38 years	\$1,140	
3	Annual Taxes and Insurance	\$980	
4	Annual Heat and Utility	\$1,920	
5	Annual Maintenance @ 1% of Mortgage (2)	\$360	
6	Annual Family Income	\$10,000	
7	Annual Mortgage Payment @ 6.5%	\$2,562	
<b>B. Calculations</b>			
		<b>20% for PITI</b>	<b>30% for PITI</b>
1	Mortgage Payment @ 6.5%	\$2,562	\$2,562
2	Taxes and Insurance	\$980	\$980
3	PITI	\$3,542	\$3,542
4	Less Allotted % of Income	\$2,000	\$3,000
5	Balance	\$1,542	\$542
6	Actual Mortgage Payment (3)	\$1,140	\$2,020
7	Heat, Utilities and Maintenance	\$2,280	\$2,280
8	PITIUM (4)	\$4,400	\$5,280
9	Percent Income, PITIUM	44.0%	52.8%
10	Actual payment after deferral (5)	\$855	n/a
11	Revised PITI	\$1,835	n/a
12	Revised PITIUM	\$4,115	n/a
13	Percent Income, PITIUM	41.2%	n/a
(1) Principal, Interest, Taxes, and Insurance			
(2) Conservative estimate. Actual cost probably 1.25% to 1.5%.			
(3) The actual payment is the greater of 1) the difference between the balance and mortgage payment @ 6.5% and 2) the mortgage payment @ 1%			
(4) Principal, Interest, Taxes, Insurance, Utilities (incl. heat) and Maintenance			
(5) Deferral can be up to 25% of mort. payment @ 1% for 38 years. Limited to fams. with inc. at or below 50% of median.			

## The Effect of Changing from 20% to 30% of Income for PITI (1)

as a Basis for Determining Interest Credit Subsidy in the

FmHA Section 502 Home Ownership Loan Program

Brown, Tx.

## A. Givens

1	Mortgage	\$45,600
2	Annual Mortgage Payment @ 1% for 38 years	\$1,445
3	Annual Taxes and Insurance	\$1,130
4	Annual Heat and Utility	\$1,560
5	Annual Maintenance @ 1% of Mortgage (2)	\$456
6	Annual Family Income	\$12,000
7	Annual Mortgage Payment @ 6.5%	\$3,245

## B. Calculations

20% for PITI

30% for PITI

1	Mortgage Payment @ 6.5%	\$3,245	\$3,245
2	Taxes and Insurance	\$1,130	\$1,130
3	PIT	\$4,375	\$4,375
4	Less Allotted % of Income	\$2,400	\$3,600
5	Balance	\$1,975	\$775
6	Actual Mortgage Payment (3)	\$1,445	\$2,470
7	Heat, Utilities and Maintenance	\$2,016	\$2,016
8	PITIUM (4)	\$4,591	\$5,616
9	Percent Income, PITIUM	38.3%	46.8%
10	Actual payment after deferral (5)	\$1,083	n/a
11	Revised PITI	\$2,213	n/a
12	Revised PITIUM	\$4,229	n/a
13	Percent Income, PITIUM	35.2%	n/a

(1) Principal, Interest, Taxes, and Insurance

(2) Conservative estimate. Actual cost probably 1.25% to 1.5%.

(3) The actual payment is the greater of 1) the difference between the balance and mortgage payment @ 6.5% and 2) the mortgage payment @ 1%

(4) Principal, Interest, Taxes, Insurance, Utilities (incl. heat) and Maintenance

(5) Deferral can be up to 25% of mort. payment @ 1% for 38 years. Limited to fams. with inc. at or below 50% of median.

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The Effect of Changing from 20% to 30% of Income for PITI (1)			
as a Basis for Determining Interest Credit Subsidy in the			
FmHA Section 502 Home Ownership Loan Program			
Brown, Tx.			
<b>A. Givens</b>			
1	Mortgage	\$45,600	
2	Annual Mortgage Payment @ 1% for 38 years	\$1,445	
3	Annual Taxes and Insurance	\$1,130	
4	Annual Heat and Utility	\$1,560	
5	Annual Maintenance @ 1% of Mortgage (2)	\$456	
6	Annual Family Income	\$13,500	
7	Annual Mortgage Payment @ 6.5%	\$3,245	
<b>B. Calculations</b>			
		<b>20% for PITI</b>	<b>30% for PITI</b>
1	Mortgage Payment @ 6.5%	\$3,245	\$3,245
2	Taxes and Insurance	\$1,130	\$1,130
3	PITI	\$4,375	\$4,375
4	Less Allotted % of Income	\$2,700	\$4,050
5	Balance	\$1,675	\$325
6	Actual Mortgage Payment (3)	\$1,570	\$2,920
7	Heat, Utilities and Maintenance	\$2,016	\$2,016
8	PITIUM (4)	\$4,716	\$6,066
9	Percent Income, PITIUM	34.9%	44.9%
10	Actual payment after deferral (5)	n/a	n/a
11	Revised PITI	n/a	n/a
12	Revised PITIUM	n/a	n/a
13	Percent Income, PITIUM	n/a	n/a
(1) Principal, Interest, Taxes, and Insurance			
(2) Conservative estimate. Actual cost probably 1.25% to 1.5%.			
(3) The actual payment is the greater of 1) the difference between the balance and mortgage payment @ 6.5% and 2) the mortgage payment @ 1%			
(4) Principal, Interest, Taxes, Insurance, Utilities (incl. heat) and Maintenance			
(5) Deferral can be up to 25% of mort. payment @ 1% for 38 years. Limited to farms with inc. at or below 50% of median.			



Short Summary  
Housing and Community Development Act of 1994  
as introduced by  
Chairman Henry B. Gonzalez

**Funding Levels:** The Housing and Community Development Act of 1994 authorizes a total of approximately \$29.6 billion and \$30.4 billion for fiscal years 1995 and 1996, respectively. These programs are administered through the Department of Housing and Urban Development and the Farmers Home Administration. The funding levels in the bill represent an approximate 3% increase above the levels authorized for these programs in fiscal year 1994. Some levels, however, have been inflated by 3% above the amount appropriated in FY 1994, or in some cases, have been increased beyond either the authorized or appropriated levels. Of the \$29.4 billion authorized for fiscal year 1995, the bill authorizes approximately \$8.6 billion for HUD public and assisted housing programs; contains a such sums as may be necessary authorization for Section 8 contract renewals and amendments in order to prevent homelessness; provides \$2.2 billion for the HOME Investment Partnership program; provides \$558.8 million for the National Homeownership Trust; authorizes \$685 million for the preservation of federally-subsidized housing; authorizes \$1.6 billion for supportive housing for elderly and disabled persons; authorizes \$4.2 billion for the Farmers Home Administration rural housing loan and grant programs; \$4.5 billion for the Community Development Block Grant (CDBG) program; and \$1.3 billion for the McKinney homeless programs under the Housing Subcommittee's jurisdiction.

**Title I -- Housing Assistance --** Provides various revisions, clarifications, and technical changes to existing HUD public and assisted housing programs. Program changes provided for in the bill include: 1) disallowing counting as earned income for 18 months, increases in income due to the employment of public housing residents who were previously unemployed for a year; 2) making ceiling rents for public housing units reasonably related to the rental value of the units; 3) adding "community service activities" by residents and community members, as an eligible activity for planning and implementation grants under the Revitalization of Severely Distressed Public Housing program, and make other clarifying changes to that program; 4) making escrow savings accounts under the Family Self Sufficiency program voluntary instead of required. Technical changes made by the bill include: 1) clarifying the definition of "families" for housing assistance eligibility purposes; 2) eliminating requirements under the Comprehensive Improvement Assistance program regarding identification of projected replacement needs by public housing authorities; 3) requiring that all new amendments to public housing provisions in Title I of the United States Housing Act of 1937 be applicable to Indian housing authorities and Indian housing unless otherwise stated.

Provides for the merger of the Section 8 certificate and voucher rental assistance programs into a single rental assistance program. Combines and restates many current law section 8 provisions, removes outdated provisions, and generally clarifies and streamlines section 8 rental assistance provisions. This provision: 1) maintains the current law certificate program requirement that a low-income tenant cannot pay more than 30% of their adjusted gross income for rent; 2) strengthens privacy protections involving income reviews of low-income families receiving assistance; 3) requires the lease between the owner and tenant to contain terms and conditions for the termination of a tenancy, including a written notice requirement; 4) eliminates the current law limitation that PHAs can only use 15% of their section 8 assistance for project-based assistance; 5) requires PHAs to provide counseling on housing opportunities for section 8 recipient families; and 6) revises the current law portability provisions by making a twelve month residency requirement discretionary with a PHA, and providing additional rental assistance funds for portability for PHAs.

Extends the authority for the National Homeownership Trust and authorizes funding for the HOPE for multifamily and single family housing programs. Provides HUD the authority to provide refinancing incentives for section 235 mortgages. Provides an expanded authorization for housing counseling.

Establishes the Community Partnerships Against Crime program, which expands the current public and assisted housing drug elimination grant program, authorizing HUD to issue grants to PHAs and owners of federally assisted low-income housing for efforts directed to preventing and eliminating all types of crime in and around public and other federally assisted housing. Provides that grants are to be issued for two years, with one-year grants renewable for an additional four years available to PHAs with especially severe crime problems.

Establishes a separate authorization for the Public Housing Youth Sports Program. Provides a separate authorization for Youthbuild.

Clarifies, coordinates, and expands requirements under the multifamily planning and investment strategies, the flexible subsidy program, the capital improvements program, and loan management set aside program so that each program provides effective tools to prevent mortgage defaults on HUD insured and HUD assisted projects.

Title II -- Home Investment Partnerships -- Establishes a flat match of 25 percent for all HOME eligible activities. Provides technical changes to the HOME Investment Partnerships Program which are intended to simplify the administration of the program in an effort to increase and speed up usage of the program,

including adding instrumentalities of state agencies as eligible grantees; simplifying income targeting, clarifying the definition of eligible homebuyer and usage of recaptured homeownership grant funds; clarifying comprehensive housing affordability strategy certification requirements; repealing separate audit requirement; defining environmental review requirements and delegation of review requirements; and clarifying the relationship between CDBG funds and HOME funds for administration and service delivery. Requires a GAO study of HOME program fund usage.

Title III -- Supportive Housing Programs -- Provides authorizations for the supportive housing for the elderly and supportive housing for persons with disabilities; the elder cottage housing demonstration program, the revised congregate housing services program, and service coordinators in mixed populations buildings. Establishes the elderly independence demonstration, separate from the HOPE program.

Makes several changes to the Housing Opportunities For Persons with AIDS program, including making non-profits that provide technical assistance eligible for nonformula allocation funding, and requiring grantees to establish and implement a process for ensuring coordination and community input in planning for and providing services.

Title IV -- Mortgage Insurance and Secondary Mortgage Market -- Authorizes the Secretary to enter into commitments to insure mortgages under the National Housing Act for a reauthorized amount to be appropriated for FY 1995 and FY 1996. Extends the Federal Housing Administration Board's date of termination to January 1, 1997. Extends the Secretary's authority to insure home equity conversion mortgages for the elderly until September 30, 1996. Clarifies the requirements of the multifamily risk sharing Demonstration and the state housing finance pilot program. Reauthorizes appropriations for the Indian Housing Guarantee Loan Program. Establishes aggregate limits for GNMA guarantees of mortgage backed securities.

Establishes the "Multifamily Housing Property Disposition Reform Act" to ensure the preservation of all units for very low and low income tenants, current and future, and to accelerate the disposition of the inventory of HUD held mortgages and HUD owned properties. Provides a simpler and less rigid approach than current law, placing the reforms in more of a market context; providing required section 8 assistance and rent restrictions; providing discretionary assistance including short term loans, up front grants and loans, discounted sales prices, transfers for public housing and section 202 and section 811 housing; and alternative uses equal to 5% of those units disposed of in any one fiscal year; and providing predictable streams of income for all properties either through section 8 assistance or flat rents so acquisition and rehabilitation costs can be financed in the

marketplace.

Reauthorizes appropriations and extends the Emergency Homeowners Relief Act of 1975 for FY 1995 and 1996. Amends the program to provide mortgage relief to single family homeowners, upon the Congress' finding that homeowners are experiencing severe economic hardship due to unemployment or income reduction that is causing them to default on their mortgage.

Title V -- Rural Housing -- Clarifies requirements for moratoria and for reamortizing section 502 single family loans and makes the deferred mortgage program permanent. Establishes a technical assistance program for Native American areas to enable tribes and members of tribes to apply for rural housing program assistance. Establishes a streamlined refinancing program for the section 515 rural rental housing program and provides permanent authorization for the section 515 program. Provides technical and clarifying changes for the rental housing prepayment program. Extends the designation period for the targeted underserved areas program from 1 year to 2 years, except on tribal lands where the designation will be in place for 3 years and extends the nonprofit set aside for the section 515 program. Establishes a set aside for new projects of rental assistance and provides for operating assistance in lieu of rental assistance for migrant farmworker housing. Establishes a rural community development initiative to attract foundation and other private funding for capacity building for nonprofit intermediaries in rural areas and establishes a delegated processing demonstration for section 502 loans in underserved areas.

Title VI -- Community Development -- Reauthorizes the following programs to be appropriated for FY 1995 and FY 1996: (1) the Community Development Block Grant (CDBG) program, (2) the section 108 loan guarantee program, (3) Special Purpose Grants for insular areas, historically black colleges, states or units of local government that jointly apply for a grant with an institution of higher learning to conduct eligible activities, work study grants for minority and economically disadvantaged students, state and local governments whose initial grant was miscalculated, technical assistance, planning community development and economic diversification activities, (4) Neighborhood Reinvestment Corporation, (5) John Heinz Neighborhood Development.

Amends the CDBG loan guarantee program to enable CDBG recipients participating in the loan program to apply for grants that will buy-down interest rates or create loan loss reserves. Provides that funding for these grants will be acquired from monies recaptured from allocated, but not expended, Urban Development Action Grants. Requires that the grants be distributed in conjunction with section 108 loans to applicants proposing to conduct economic development activities that meet the existing



CDBG criteria.

Increases activities under the CDBG loan program to enable colonias to participate in the loan guarantee program in order to conduct public works activities. Extends the authority of the colonias program to September 30, 1996.

Title VII -- Regulatory and Miscellaneous Programs --  
Reauthorizes the following programs to be appropriated for FY 1995 and FY 1996: (1) Fair Housing Initiatives Program, (2) HUD Monitoring and Research, (3) HUD Salaries and Expenses, (4) HUD Research and Development, (4) National Institute of Building Sciences, (5) Lead Based Paint Hazard Reduction, (6) New Towns Demonstration Program, and (7) National American Indian Housing Council. Authorizes the Housing Assistance Council. Clarifies subsidy layering review requirements.

Title VIII -- Housing Programs under Stewart B. McKinney Homeless Assistance Act -- Reauthorizes existing McKinney homeless programs administered by HUD.

**HOUSING AND COMMUNITY DEVELOPMENT ACT OF 1994  
SECTION-BY-SECTION ANALYSIS**

**Sec. 1. Short Title and Table of Contents.**

Provides that this Act may be cited as the Housing and Community Development Act of 1994.

**Sec. 2. Effective Date.**

Provides that the provisions and amendments made by this Act are to take effect and apply upon enactment, unless the provisions or amendments specifically provide for effectiveness or applicability upon another date certain.

**TITLE I -- HOUSING ASSISTANCE**

**Subtitle A -- General Provisions****Sec. 101. Low-Income Housing Authorization.**

Provides additional aggregate budget authority for the subsidized housing programs authorized under Sec. 5(c) of the 1937 Housing Act of \$8,603,634,603 for Fiscal Year (FY) 1995, and \$8,860,274,842 for Fiscal Year 1996. These totals include:

--- public housing grants, \$891,772,592 for FY 1995, and \$ 918,525,770 for FY 1996 (of which \$276,171,263 and \$284,456,401 is available in each fiscal year, respectively, for Indian public housing);

--- Section 8 assistance, \$2,122,546,291 for FY 1995, and \$2,186,222,680 for FY 1996;

--- Major redesign, reconstruction, and redevelopment of existing obsolete public housing projects and buildings, \$122,776,000 for FY 1995, and \$126,459,280 for FY 1996;

--- Comprehensive improvement assistance grants (public housing modernization), \$ 3,327,106,000 for FY 1995, and \$3,426,919,180 for FY 1996;

--- Section 8 family unification assistance, \$107,326,000 for FY 1995, and \$110,545,780 for FY 1996;

--- Assistance for section 8 portability provisions, \$100,000,000 for FY 1995, and \$103,000,000 for FY 1996.

--- Section 8 assistance for property disposition, \$571,650,000 for FY 1995, and \$588,799,500 for FY 1996;

--- Section 8 assistance for loan management, \$216,798,520 for FY 1995, and \$223,302,476 for FY 1996;

--- Extensions of expiring section 8 contracts, such sums as may be necessary for FYs 1995 and 1996;

--- Section 8 contract amendments, such sums as may be necessary for FYs 1995 and 1996;

--- Adjustments to annual contributions contracts for public housing and section 8 assistance for the costs of providing service coordinators, \$93,112,000 in FY 1995, and \$95,905,360 in FY 1996;

--- Public housing lease adjustments and amendments, such sums as may be necessary for FYs 1995 and 1996;

--- Section 18 assistance for replacement housing for demolished or disposed of units, \$200 million for FY 1995 and \$206 million for FY 1996, of which 75% shall be available for providing public housing units and 25% available for providing Section 8 units in each fiscal year;

--- Conversions from Section 23 leased housing to Section 8, \$3,960,000 for each FY 1995 and 1996;

--- Grants under section 24 for revitalization of severely distressed public housing, not more than \$801,587,200 for FY 1995, and \$825,634,816 for FY 1996.

#### **Sec. 102. Definition of Families.**

Makes a technical change to the definition of "families" under section 3(b)(3)(B) of the United States Housing Act of 1937 to clarify that families are not required to include children in order to be eligible for housing assistance.

#### **Sec. 103. Family Self Sufficiency Program**

Authorizes to be appropriated \$26,677,000 in fiscal year 1995 and \$27,477,310 in fiscal year 1996 for service coordinators under the family self sufficiency program. Also, makes various changes to the escrow requirements in existing law. Makes the escrow savings account voluntary instead of required. Provides that amounts in the escrow accounts may be withdrawn if contract obligations are met according to the goals and terms in the contract and under other circumstances as determined by the public housing agency with the approval of the Secretary. Permits a housing authority's plan to require the establishment of an escrow account, to describe procedures for release of escrowed amounts, and any other incentives designed by the housing authority. Repeals the incentive award allocation of section 8 assistance.

## Subtitle B -- Public and Indian Housing

### **Sec. 111. Disallowance of Earned Income For Residents Who Obtain Employment.**

Amends section 3 of the 1937 Housing Act to allow formerly unemployed public housing residents to work without being penalized by rent increases due to increased income. Disallows counting as earned income, for 18 months, increases in income due to the employment of public housing residents who become employed after having been unemployed for at least a year.

Provides that to the extent that this provision results in additional costs, the provision shall be effective only to the extent that amounts to cover such additional costs are provided in advance in appropriations Acts.

Deletes the current 18 month disallowance provision under section 3, which only disallowed counting as income the earnings and benefits of any public housing residents resulting from participation in various Federal, State or local employment training programs. Provides that the current section 3 provision is to govern public housing residents currently participating in employment training programs.

Conforms section 957(a) of the Cranston-Gonzalez National Affordable Housing Act, to the change made by this section. Section 957(a) limits the amount per year that rents can be increased in federally assisted housing due to increases in income of a previously unemployed resident.

### **Sec. 112. Ceiling Rents.**

Amends section 3(a) of the 1937 Housing Act to make ceiling rents for public housing units reasonably related to the rental value of the units. Specifically, amends section 3(a)(2)(A)(iii) of the 1937 Housing Act to provide that ceiling rents set by public housing authorities (PHAs) may not exceed a maximum amount that is not less than the reasonable rental value of a unit as determined by HUD. Deletes the current requirement that ceiling rents set by PHAs may not exceed a maximum amount that is not less than the average monthly amount of debt service and operating expenses attributable to dwelling units of similar size in public housing projects owned and operated by the PHA.

Provides that this new ceiling rent limitation is not to be applied by a PHA to any family residing in a public housing project who, for 36 consecutive months (beginning after the date of enactment of this Act), has an income exceeding the income of a low-income family, and who has had their rent determined under the new ceiling rent limitation during that period.

Requires HUD to issue regulations to carry-out this new provision, after notice and opportunity for public comment.



**Sec. 113. Major Reconstruction of Obsolete Projects.**

Amends section 5(j)(2) of the 1937 Housing Act to authorize HUD to provide assistance for the redesign, reconstruction or redevelopment of obsolete public housing. Eliminates the current law provision authorizing a set-aside for such assistance from public housing development. Requires HUD to set-aside 5% of amounts authorized in FY 1995 and FY 1996 for the redesign and reconstruction of obsolete projects designated for occupancy by disabled families.

**Sec. 114. New Construction of Projects for Disabled Families.**

Requires HUD to reserve in FY 1995 and FY 1996 not less than 5% of any amounts appropriated in those years for public housing development costs, for costs for development or acquisition of public housing projects or buildings designated for occupancy by disabled families (section 5(j)(3)(A) of the 1937 Housing Act).

**Sec. 115. Public Housing Operating Subsidies.**

Authorizes for public housing operating subsidies (section 9(c) of the 1937 Housing Act) \$2,750,000,000 for FY 1995, and \$2,832,500,000 for FY 1996.

Authorizes for FY 1995 and for FY 1996, such sums as may be necessary to provide each PHA with the difference between those amounts appropriated to the PHA in each of those years and all funds for which the PHA is eligible to under the performance funding system without adjustments for estimated or unrealized savings.

Authorizes FY 1995 and for FY 1996, such sums as may be necessary for the costs of adjustments to income and adjusted income under sections 573(b) and (c) of the Cranston-Gonzalez National Affordable Housing Act.

**Sec. 116. Elimination of Requirement to Identify CIAP Replacement Needs.**

Deletes sections 14(d)(2) and 14(f)(1)(B) of the 1937 Housing Act to eliminate requirements under the Comprehensive Improvement Assistance program (CIAP) regarding identification of projected replacement needs by PHAs. Makes other technical conforming changes to sections 14(d) and 14(f) of the 1937 Housing Act.

**Sec. 117. Public Housing Vacancy Reduction.**

Extends the set-aside of funds under the public housing modernization program for the Public Housing Vacancy Reduction program established in the Cranston-Gonzalez National Affordable Housing Act of 1990.

**Sec. 118. Replacement Housing For Demolished or Disposed Public Housing.**

Amends section 18(e) of the 1937 Housing Act to authorize HUD to provide assistance for replacement housing for demolished or disposed of units, and to authorize section 8 assistance for such replacement housing. Eliminates current law set-asides for such assistance.

**Sec. 119. Public Housing Resident Management.**

Authorizes \$5 million for each of FY 1995 and FY 1996, for the public housing resident management program (section 20 of the 1937 Housing Act).

**Sec. 120. Public Housing Family Investment Centers.**

Authorizes \$26,831,500 for FY 1995, and \$27,636,445 for FY 1996, for public housing family investment centers (section 22 of the 1937 Housing Act).

**Sec. 121. Revitalization of Severely Distressed Public Housing.**

Provides various amendments to section 24 of the 1937 Housing Act, the Revitalization of Severely Distressed Public Housing program. Increases the maximum planning grant under the program from \$200,000 to \$500,000.

Adds as an eligible activity under both planning and implementation grants, community service activities which would be carried out by residents, community members, and other persons willing to contribute to the social, economic, or physical improvement of the community. Adds as an application requirement, for both planning and implementation grants, a description of proposed community service activities, to the extent applicants are seeking funds for such activities.

Increases from 15% to 20% the amount of implementation funds which may be used for support services. Requires that an amount equal to 15% of the amount devoted to support services be contributed from non-federal sources in the form of cash, administrative costs, and the reasonable value of in-kind contributions, and may include funding under the Community Development Block Grant program (Title I of the Housing and Community Development Act of 1974).

Amends the implementation grant selection criteria to include the "quality of the proposed" revitalization program, and eliminates from the criteria, the "potential of the applicant for developing a successful and affordable revitalization program."

Simplifies the definition of "severely distressed public housing". Eliminates certain characteristics which must be demonstrated to meet the definition under current law. Eliminates the requirement that only developments in PHAs who are

designated as "troubled" under section 6(j)(2) of the 1937 Housing Act meet the definition.

Defines "support services" and "community service" for purposes of this section.

**Sec. 122. Applicability of Public Housing Amendments to Indian Housing.**

Requires that all new public housing provisions (in Title I of the Housing Act of 1937) be applicable to Indian housing authorities and Indian housing unless otherwise stated. Requires that this change will not affect any provisions previously applied or not applied prior to enactment of this change. Requires that certain provisions included in the Housing and Community Development Act of 1992 affecting public housing apply to the Indian housing program: certain exclusions from income of social security benefits; change in tenant preferences; changes in public housing operating subsidies; changes to demolition and disposition requirements; changes in the section 21 public housing homeownership program; public housing consent form; and clarification that receipt of utility allowances in Indian housing will not affect the level of assistance from other means tested programs including but not limited to the Low Income Housing Energy Assistance Program.

**Sec. 123. Public Housing Early Childhood Development Services.** Authorizes for public housing early childhood development grants (section 222 of the Housing and Urban-Rural Recovery Act of 1983), \$15 million for FY 1995 and \$15,450,000 for FY 1996.

**Sec. 124. Indian Housing Childhood Development Services.** Authorizes for the Indian Public Housing Early Childhood Development Demonstration Program (section 518 of the Cranston-Gonzalez National Affordable Housing Act) \$5,580,540 for FY 1995, and \$5,747,956 for FY 1996.

**Sec. 125. Public Housing One-Stop Perinatal Services Demonstration.**

Authorizes for the public housing one-stop perinatal services demonstration program (section 521 of the Cranston-Gonzalez National Affordable Housing Act) \$214,652 for FY 1995, and \$221,092 for FY 1996.

**Subtitle C -- Section 8 Assistance**

**Sec. 141. Moving To Opportunity For Fair Housing.**

Authorizes an additional \$176,387,500 in FY 1995, and an additional \$181,679,125 in FY 1996, for section 8 tenant-based assistance to carry out the Moving To Opportunity for Fair Housing program (Section 152 of the Housing and Community Development Act of 1992). Provides that of the amount

appropriated in FY 1995 and 1996 under section 106(a) of the Housing and Urban Development Act of 1968 (HUD technical assistance and counseling to tenants, homeowners, and communities), \$500,000 is to be available for counseling and other activities under the Moving To Opportunity for Fair Housing program.

**Sec. 142. Community Investment Demonstration Program.**

Authorizes \$103 million for FY 1995, and \$106,090,000 for FY 1996 for the Section 8 Community Investment Demonstration Program (section 6 of the HUD Demonstration Act of 1993).

**Sec. 143. Restatement and Revision of Section 8 Rental Assistance Program.**

a) General: Amends section 8 of the United States Housing Act of 1937 to merge the certificate and voucher rental assistance programs into a single rental assistance program. Combines and restates the current rental assistance programs under section 8, removes outdated provisions, and streamlines and clarifies this section.

b) Annual Contributions Contracts for Rental Assistance: Maintains current law authority regarding annual contributions contracts between HUD and PHAs. Maintains HUD's current law authority to enter into contracts, and perform other functions of PHAs, where there is no PHA or HUD determines the PHA is unable to implement this section. Maintains current law restriction that HUD may not consider receipt by a PHA of assistance for supportive housing for the disabled in approving or determining the amount of assistance under this section.

c) Assistance Contracts: Maintains current law authority regarding annual assistance contracts between PHAs and owners.

d) Maximum Monthly Rent: Maintains current law requirements regarding the establishment of maximum monthly rents and the annual adjustment of rents. Maintains current law provision for rent adjustments due to increases in expenses, and lead-based paint reduction. Expands current law rent adjustment provision for drug-related criminal activity to include all criminal activity. Maintains current law limitations on rent adjustments and requirements for HUD rent comparability studies.

e) Fair Market Rentals: Authorizes, as provided under current law, the establishment of fair market rents and the annual adjustment of such rents.

**f) Amount of Monthly Assistance Payment:**

Provides that the monthly assistance payment with respect to a unit is the difference between the applicable maximum monthly rent and 30% of the family's adjusted gross-income. Provides,



therefore, that a tenant under this program cannot pay more than 30% of their adjusted gross income for rent.

Maintains current law HUD requirement to ensure timely increases of assistance payments to cover rent increases or decreases in family incomes.

Maintains current law requirement for an annual review of family incomes, and adds new provisions applying existing law privacy protections to such reviews, and providing that interim income reviews are only to be made to ensure that the family is not paying more than 30% of their income for rent.

g) Eligibility of Units for Assistance: Maintains current law requirements on units eligible for assistance payments, with a technical clarification prohibiting the costs of an unoccupied unit from being charged to or paid by the family vacating the unit.

h) Other Provisions of Assistance Contracts: Maintains current law requirements on the term of an assistance contract, tenant preferences, and tenant selection criteria, including the prohibition of a preference for persons previously evicted for drug-related criminal activity.

Maintains current law lease term requirements between the tenant and the owner. Adds a new requirement that the lease contain terms and conditions, including written notice requirements, for the termination of a tenancy. Maintains current law requirements for inclusion of termination of tenancy provisions in assistance contracts.

Maintains current law requirements for assistance contract provisions regarding standards for maintenance and replacement of units. Adds a new requirement of assistance contracts, allowing PHAs to withhold assistance amounts if the PHA determines that an assisted unit fails to comply with housing quality standards, and allowing the withheld amounts to be used by the PHA to make necessary repairs or to reimburse the tenant for such repairs.

i) Project-Based Assistance: Eliminates the current law limitation that PHAs can only use 15% of their section 8 assistance for project-based assistance. Maintains current law provisions regarding 15 year terms for project-based assistance, and provisions regarding service coordinators.

j) Termination of Assistance Contracts: Maintains current law provisions regarding termination of assistance contracts including one-year written notice to tenants and to HUD of the termination (90 days in the case of tenant-based assistance), and review of the legality of the termination by HUD. Requires the

owner to provide written notice to the tenants of the HUD decision, as required under current law, and adds a new requirement that HUD's written findings also be provided by the owner to the tenant. Adds a new requirement that HUD, in the case of project-based assistance, complete its review of the termination and issue written findings within 9 months after notice of such termination by the owner.

k) Rental Assistance for Manufactured Housing: Maintains current law provisions regarding rental assistance for low-income families living in manufactured homes.

l) Single Room Occupancy Facilities: Maintains current law provision allowing HUD to provide assistance to single room occupancy facilities.

m) Housing for Elderly and Disabled Families: Maintains current law with regard to section 8 assistance for elderly and disabled families, including shared housing, the priority for non-elderly disabled families, preferences for the elderly and the reservation of units for the disabled.

n) Administrative Fees: Maintains current law requirements for HUD establishment of fees for costs incurred by PHAs in administering the rental assistance program, including costs for employing service coordinators. Freezes administrative fees for FY 1995 and FY 1996 at FY 1994 levels.

o) Portability of Assistance: Changes current law requirements regarding portability of tenant-based rental assistance to give a PHA the discretion to require that a family may only use such assistance to rent an eligible unit located outside the jurisdiction of the PHA approving the assistance if the family has rented and occupied a unit within the jurisdiction of the original PHA for not less than 12 consecutive months.

Provides that a PHA that provides tenant-based rental assistance to more than 300 families and that elects to restrict the portability of assistance with the 12 month residency requirement may not apply the restriction with respect to assistance provided on behalf of 10 percent of the number of families receiving such assistance that exceeds 300.

Provides additional rental assistance funds to those PHAs into which jurisdiction section 8 tenants have moved after being provided such assistance by another PHA. Provides that such additional amounts may only be provided to the PHA in an amount equal to the lesser of: 1) 5 percent of the total amount section 8 assistance received by the PHA for the fiscal year; or 2) the amount necessary to assist 25 percent of the of the average annual number of families previously assisted by the PHA who relinquish such assistance in a year.

p) **Prohibition of Discrimination:** Maintains current law restrictions prohibiting PHAs from discriminating against families who reside in public housing in providing section 8 assistance, and restrictions prohibiting rental discrimination by owners who participate in the program against families who have been approved for section 8 assistance.

q) **Special Uses Rental Assistance:** Maintains current law requirements, with technical corrections, on the provision of tenant based assistance to low-income families living in rehabilitated projects who are required to move out of their units because of rehabilitation or overcrowding, or who because of such rehabilitation must pay more than 30% of their income for rent.

Maintains current law provisions regarding loan management assistance.

Maintains current law requirements regarding use and allocation of funds for family unification assistance.

r) **Renewal of Expiring Contracts --** Maintains current law provision on the renewal of expiring section 8 contracts.

s) **General Provisions --** Maintains current law prohibition on high-rise elevator projects for families with children, and current law provision allowing an owner to offer an assistance contract as security for a loan for constructing or rehabilitating section 8 housing.

Establishes a new requirement that PHAs that provide Section 8 rental assistance to low income families are to make available to such families counseling and assistance regarding housing opportunities in the PHA's area of jurisdiction, including assistance in obtaining new rental residences.

t) **Homeownership Option --** Maintains current law provisions, with technical conforming changes, authorizing the use of section 8 assistance for homeownership by a family that meets certain eligibility criteria.

u) **Definitions:** Defines, for purposes of this section, annual contributions contract, assistance contract, debt service, drug-related criminal activity, owner, participating jurisdiction, project based assistance, rent, rental assistance, and tenant based assistance.

**Transition:** Provides that this new section 8 provision is to only apply to assistance contracts entered into or renewed during FY 1995 or thereafter. Provides that current law is to apply to assistance contracts entered into before FY 1995. Requires HUD to take any action necessary to ensure that section 8 assistance

currently received by families is not interrupted by the enactment of this new section 8 provision.

Conforming Amendments: Makes technical conforming amendments to housing statutes referencing section 8.

#### **Subtitle D -- Homeownership Assistance**

##### **Sec. 151. HOPE Homeownership Programs.**

Authorizes for appropriation \$100 million in each fiscal year 1995 and 1996 for grants under the HOPE for multifamily housing and HOPE for single family housing programs. Establishes a required match of 25 percent instead of 33 percent for the HOPE programs.

##### **Sec. 152. National Homeownership Trust**

Extends the authority of the Trust until September 30, 1996. Authorizes \$558,809,562 for FY 1995, and \$575,573,849 for FY 1996 to be used to provide downpayment assistance or interest rate buydowns for first-time homebuyers.

##### **Sec. 153. Section 235 Mortgage Refinancing**

Amends section 235(r) of the National Housing Act (the refinancing program for section 235 mortgages) to authorize HUD to do the following: (1) insure a section 235 mortgage that includes an amount covering the cost of refinancing that mortgage (section 235(r)(2)(C)), (2) provide incentives to mortgagees, in addition to incentives already permitted for mortgagors under current law, to refinance section 235 mortgages, and (3) use funds recaptured from assistance payments contracts relating to the refinanced mortgages to pay mortgagors and mortgagees for refinancing costs and incentives.

#### **-Subtitle E -- Other Programs**

##### **Sec. 161 Community Partnerships Against Crime**

General: Revises sections 5121, 5122 and 5123 of the Anti-Drug Abuse Act of 1988 to establish the "Community Partnerships Against Crime Act of 1994."

Purposes: Provides that the purposes of this Act are to: 1) substantially expand and enhance the Federal government's commitment to eliminating crime in and around public housing and other federal assisted housing projects; 2) broaden the scope of current law "to apply to all types of crime, and not simply crime that is drug-related"; 3) target opportunities for long-term commitments of funding primarily to public housing agencies with serious crime problems; 4) encourage the involvement of a broad range of community-based groups and residents of neighboring housing that is owned or assisted by HUD, in the development of an implementation of anti-crime plans; 5) expand community-



oriented policing activities and problem solving in public housing; 6) provide training, information services and other technical assistance; and 7) "establish a standardized assessment system to evaluate need among public housing agencies, and to measure progress in reaching crime reduction goals."

**Authority to Make Grants:** Authorizes HUD to make grants under this Act to public housing agencies (including Indian housing authorities) and private, for profit, and non-profit owners of federally assisted low-income housing projects. Requires the HUD Secretary to consult with the Attorney General in designing the program.

Provides that a grant is to be for a period of up to two years.

Authorizes HUD to make one year grants, renewable annually for an additional four years, to public housing agencies having especially severe crime problems. Provides that renewal of grants for severe crime problems are subject to amounts in appropriations Acts, and a finding by HUD, after an annual performance review, 1) that the PHA is carrying out the grant in a satisfactory manner, and 2) that a need for such assistance continues to exist. Requires HUD to establish criteria, by regulation, for determining those PHAs with especially severe crime problems.

**Eligible Activities:** Expands the list of eligible activities provided under current law that grants may be used for to include prevention of all crime, rather than only drug-related crime, and: 1) security improvements such as fencing, lighting, locking and surveillance systems; 2) community policing; 3) youth initiatives involving training, education and after school programs, cultural programs, recreation and sports, career planning, and entrepreneurship and employment; and 4) resident service programs, such as job training and education programs.

Maintains current law provision allowing grants to be used by a PHA for non-public housing owned by the PHA, and expands the use of such grants to include elimination of all crime in and around such housing rather than only drug-related crime as provided under current law.

**Applications:** Requires a PHA or an owner of federally-assisted low-income housing to submit an application to HUD to receive a grant. Requires the application to include a plan for addressing the problem of crime in and around the property for which the application is being submitted, and the period during which any grant amounts received are to be used.

Expands the criteria on which HUD is to base its approval of grant applications to include the extent of all types of crime in a public or federally assisted housing project, rather than only

drug-related crime.

Provides that HUD may give a preference in awarding grants to an applicant for a grant that is to be used to continue or expand activities assisted under a grant that had previously been made. Provides, however, that this preference can only be made if HUD determines that the program carried out under the previous grant is being managed soundly and demonstrates success, and that a need for such assistance continues to exist.

Definitions: Makes technical conforming changes to the definitions section under this Act.

Implementation: Provides for the issuance of regulations to implement this Act within 180 days after enactment.

Reports: Makes technical conforming changes to the reports required to be filed under this Act.

Authorization of Appropriations: Authorizes \$272,950,000 for FY 1995 and \$281,138,500 for FY 1996 for this Act. Maintains existing law requirement that not more than 6.25% of amounts appropriated in any fiscal year is to be for grants for federally assisted, low income housing. Eliminates existing law 5% set-aside for public housing youth sports programs.

Technical Assistance: Provides that \$10 million of the amounts appropriated in both FY 1995 and FY 1996 may be used by HUD for training, information services, and other technical assistance to public housing agencies and other entities with respect to their participation in the program.

Conforming Amendments: Makes technical conforming amendments to the Anti-Drug Abuse Act of 1988, and the Cranston-Gonzalez National Affordable Housing Act.

#### **Sec. 162. Public Housing Youth Sports Program.**

Establishes a separate authorization for the Public Housing Youth Sports Program (section 520 of the Cranston-Gonzalez National Affordable Housing Act), and eliminates the current funding set-aside from the Anti-Drug Abuse Act of 1988. Authorizes \$13,647,000 for FY 1995, and \$14,056,925 for FY 1996, for grants for this program.

#### **Sec. 163. Low-income Housing Preservation.**

Authorizes to be appropriated for assistance and incentives under the preservation program \$685,011,183 in fiscal year 1995 and \$705,561,518 in fiscal year 1996. Authorizes for appropriation for grants not more than \$50 million in each fiscal year 1995 and 1996 of the amounts made available for assistance and incentives. Requires HUD to use not more than \$25 million in each fiscal year 1995 and 1996 for technical assistance and capacity building.

**Sec. 164. Flexible Subsidy Program**

Authorizes for the flexible subsidy program \$56,024,172 for fiscal year 1995 and \$57,704,897 for fiscal year 1996. Extends the transfer of excess section 236 rents to the flexible subsidy program through fiscal year 1996.

**Sec. 165. Housing Counseling**

Authorizes \$50 million for FY 1995 and \$51.5 million for FY 1996 to be used by public and private organizations to inform, advise and technically assist tenants and homeowners in regards to housing.

Authorizes \$7,512,820 for FY 1995, and \$7,738,205 for FY 1996 in order to provide grants to nonprofit organizations to provide housing counseling services. Allocates \$1 million of the appropriated amount for the purpose of distributing information about counseling services and monitoring the compliance of creditors. Extends counseling program (section 106(c) of the Housing and Urban Development Act of 1968) to September 30, 1996.

Authorizes \$391,740 for FY 1995, and \$403,492 for FY 1996 to be used to provide pre-purchase and foreclosure-prevention counseling for those applying for loans insured under the Federal Housing Administration's single family loan program (section 106(d) of the Housing and Urban Development Act of 1968). Extends the counseling program (section 106(d) of the Housing and Urban Development Act to 1968) to FY 1996.

Authorizes \$2,146,520 for FY 1995, and \$2,210,916 for FY 1996 to be used to provide training to homeownership and rental counselors under section 106(f)(7) of the Housing and Urban Development Act of 1968. Extends the counseling program (section 106(f) of the Housing and Urban Development Act of 1968) to September 30, 1996.

**Sec. 166. Preventing Mortgage Default on Multifamily Housing Projects.**

(a) Amends the requirements for multifamily housing planning and investment strategies by requiring that any assessment may not be conducted by a party with an identity of interest with the owner of the project. Amends the schedule for completing assessments by providing that to ensure completion of such assessments by the end of fiscal year 1997, requiring the Secretary to require all owners of covered properties to submit assessments as follows: in fiscal year 1994, 10 percent of the properties, in fiscal years 1995, 1996, and 1997, an additional 30 percent of the aggregate of covered properties. Clarifies the review requirements for assessments by requiring HUD to review such assessments for completeness and adequacy within 90 days of submission and notify the owner of the findings of the review including whether it was incomplete or inadequate and requiring the owner within 30 days to respond to any noted deficiencies.

Authorizes HUD to allocate operating assistance, capital improvements assistance, and section 8 loan management assistance on a non competitive basis to owners of covered properties on the basis of the needs identified in the assessments. Requires HUD to use criteria established for the operating assistance and capital improvements program for such allocation. Permits HUD to provide funding for all or a portion of the needs identified in such assessments.

(b) Under the flexible subsidy program, strikes the requirements for utility costs and repeals the mandatory contribution by owners for receiving flexible subsidies. Rewrites the requirements for the allocation of assistance to require a set aside of flexible subsidy as determined by HUD to cover the costs of incentives under the preservation program enacted in 1987; and to require that assistance may be provided on a non-competitive basis on the basis of the extent to which the project is physically or financially troubled based on a needs assessment and the extent to which such assistance is necessary and reasonable to prevent default, except that flexible subsidy may be provided to projects which have not completed the needs assessment based on the extent to which the assistance is necessary to prevent imminent foreclosure, the extent to which the projects present an imminent threat to life, health and safety of residents; or any other criteria defined by HUD by regulation or notice. Requires HUD to consider the extent to which residents will have significant opportunities to participate in management and the extent to which the owner has provided competent management and complied with all regulations and handbooks. Repeals the requirement that owners and projects can receive either flexible subsidy or preservation incentives, not both.

(c) Requires HUD to publish by notice for effect interim regulations as needed. Requires that public comment be invited and that final regulations be issued not later than 12 months after the first notice is published.

(d) Requires HUD to implement a streamlined refinancing program as soon as practicable under section 223 of the National Housing Act to prevent defaults of mortgages insured by the FHA and covered by the property disposition program.

(e) Requires GAO to complete a study of preventing defaults for the House and Senate Banking Committees no later than September 1, 1995 including an evaluation of the adequacy of the loan loss reserves in the General Insurance and Special Risk Insurance Funds and any recommendations to prevent such losses.

**Sec. 167. Youthbuild Program.**

Amends section 402 of the Cranston-Gonzalez National Affordable Housing Act to authorize \$50 million in FY 1995 and \$51.5 million



in FY 1996 for the Youthbuild program. Amends subtitle D of Title IV of the Cranston-Gonzalez National Affordable Housing Act to rename the "Hope for Youth" program "Youthbuild."

## **TITLE II -- HOME INVESTMENT PARTNERSHIPS**

### **Sec. 201. Authorization of Appropriations**

Authorizes for appropriation \$2,238,820,360 for fiscal year 1995 and \$2,305,984,971 for fiscal year 1996. Requires that not more than \$25 million in each fiscal year 1995 and 1996 be available for the community housing partnership activities; and not more than \$22 million in each fiscal year 1995 and 1996 be available for activities in support of state and local housing strategies.

**Sec. 202. Participation by State Agencies or Instrumentalities.** Clarifies that the term "state" includes any agency or instrumentality of the State that is established by legislation and designated by the chief executive to act on behalf of the State.

### **Sec. 203. Simplification of Program-wide Income Targeting for Rental Housing**

Simplifies the targeting rules for rental housing assisted by HOME funds to provide that the targeting of HOME rental assistance shall be determined by units produced and occupied by eligible families rather than determining whether the targeting requirements for rental housing are being met based on program funds invested.

### **Sec. 204. Homeownership Units.**

Strikes the requirement that eligible recipients of HOME funds for homeownership be first time homebuyers and clarifies that HOME funds invested in homeownership that are recaptured upon resale may be used for any HOME eligible activity, not just homeownership.

### **Sec. 205. Comprehensive Affordable Housing Strategy.**

Clarifies that a participating jurisdiction may draw funds against its HOME investment trust fund, if it certifies that it is complying with a current Comprehensive Housing Affordability Strategy approved by HUD, in addition to other specified requirements.

### **Sec. 206. Simplification of Matching Requirements.**

Provides for a flat match of 25% for all eligible activities under the HOME program.

### **Sec. 207. Repeal of Separate Audit Requirement.**

Renames the section to require audits only by the Comptroller General and strikes the requirement that HUD contract for a separate independent audit of the HOME program.

**Sec. 208. Environmental Review Requirements**

Expands definition of participating jurisdictions each place it appears to include jurisdictions, Indian tribes, or insular areas. Requires that environmental review regulations issued by the Secretary shall provide for monitoring of the performance of such reviews; for discretionary training for the performance of such reviews; and suspension or end of such reviews by jurisdictions, Indian tribes, or insular areas in lieu of the HUD reviews. Provides a rule of construction that HUD's reviews and monitoring does not limit or reduce any responsibility assumed by a state or unit of general local government. Clarifies that certain environmental review requirements apply to assistance to units of general local government from a State.

**Sec. 209. Use of CDBG Funds for Home Program Expenses.**

Amends the CDBG eligible expenses to include reasonable administrative costs and charges related to administering the HOME program. Amends CDBG eligible project delivery costs by defining housing counseling as counseling in connection with tenant based rental assistance and affordable housing under the HOME program. Strikes the requirement that project delivery costs are subject to the 20% Administrative cap.

**Sec. 210. GAO Study of Use of HOME Program Funds**

Requires GAO to conduct a study of HOME program fund usage as to type of housing assisted and to report to Congress.

**Sec. 211. Capacity Building for Community Development and Affordable Housing**

Authorizes \$25 million out of the HOME program in each fiscal year 1995 and 1996 for section 4(e) of the HUD Demonstration Act of 1993 in order to provide capacity building for community development and affordable housing.

**Sec. 212. Applicability and Regulations.**

Requires that the provisions of this Title apply to funds made available after the date of enactment and any unobligated amounts made available prior to enactment. Requires HUD to issue regulations not later than 45 days after enactment of this Act.

### TITLE III -- SUPPORTIVE HOUSING PROGRAMS

#### **Sec. 301. Funding for Supportive Housing for the Elderly and for Persons with Disabilities**

Authorizes for appropriation for the purpose of providing capital grants and operating assistance for housing for the elderly and housing for persons with disabilities an aggregate amount of \$1,591,350,000 in fiscal year 1995 and \$1,639,090,500 in fiscal year 1996.

#### **Sec. 302. Elder Cottage Housing Demonstration Program**

Requires HUD to provide funding for capital grants and operating assistance for no less than 100 units of section 202 housing for the elderly in each of fiscal years 1995 and 1996 for the elder cottage housing demonstration program. Extends the date to January 1, 1995 for submission of an interim report on the demonstration.

#### **Sec. 303. Revised Congregate Services**

Authorizes for appropriation for the revised congregate services program \$25,750,000 in fiscal year 1995 and \$26,522,500 in fiscal year 1996.

#### **Sec. 304. Elderly Independence Demonstration**

Authorizes an increase in section 8 budget authority of \$41,092,979 on or after October 1, 1994 and \$42,325,768 on or after October 1, 1995 for the elderly independence demonstration. Authorizes for appropriation \$ \$10,732,600 in fiscal year 1995 and \$11,054,578 in fiscal year 1996 for supportive services funding. Strikes the name "HOPE" from the demonstration's title.

#### **Sec. 305. Housing Opportunities For Persons With AIDS.**

Authorizes for \$250 million FY 1995, and \$257.5 million for FY 1996 for AIDS housing programs (Title VIII, subtitle D of the Cranston-Gonzalez National Affordable Housing Act).

Adds to those entities eligible for non-formula allocation funding under these programs, nonprofit organizations that provide technical assistance on a national, regional or State-wide basis to nonprofit organizations that carry out program activities. Limits this funding to such non-profit organizations to 2% of the amounts available in any fiscal year under the non-formula allocation.

Expands the current law responsibilities of grantees in providing assistance, to require the grantees to establish and implement a process for ensuring coordination and community input in planning for and providing services. Requires the planning process to include consultation and coordination with relevant State and local government agencies, and public and private organizations, responsible for providing services to eligible persons. Requires

a description of the activities to be taken to fulfill these grantee responsibilities in the grant application.

Makes a technical change eliminating staff costs from the limit on use of grant funds for administrative costs by project sponsors.

**Sec. 306. Service Coordinators.**

Authorizes an increase in annual contributions for public housing agencies to provide service coordinators for elderly persons and persons with disabilities to the extent that operating subsidies under section 9(c) are increased. Authorizes such sums as may be necessary in FY 1995 and FY 1996 to cover the costs of service coordinators in other federally assisted multifamily housing.

**TITLE IV -- MORTGAGE INSURANCE AND SECONDARY MORTGAGE MARKET**

**Subtitle A -- Mortgage Insurance and Loan Guarantee Programs**

**Sec. 401. Limitation on Insurance Authority**

Authorizes the Secretary to enter into commitments to insure mortgages under the National Housing Act with an aggregate principal amount of \$105 billion in each FY 1995 and FY 1996.

**Sec. 402. Federal Housing Administration Advisory Board**

Extends the date of termination for the Advisory Board to January 1, 1997 (section 202(b) of the National Housing Act).

**Sec. 403. Home Equity Conversion Mortgages For Elderly**

**Homeowners** Extends the date of termination for the demonstration program that provides mortgage insurance for home equity conversion loans for the elderly (section 255 of the National Housing Act) until September 30, 1996.

**Sec. 404. Multifamily Housing Financing Programs.**

(a) Amends the multifamily risk sharing pilot program to extend the authority through fiscal year 1996 and the expand the number of units by 15,000. Amends the state housing finance agency pilot program by extending the pilot program through fiscal year 1996 and expand the number of units by 10,000.

(b) Amends the risk sharing pilot program: (1) by clarifying the purpose of the pilot program with qualified participating entities. Requires HUD to use the pilot program to determine the effectiveness of Federal credit enhancement for affordable housing through risk sharing agreements.

(2) Establishes and specifies new program requirements as



follows: (A) In general requires HUD to enter into risk sharing agreements; (B) Authorizes insurance and reinsurance for mortgages of qualified participating entities; provides that HUD may give preference. Permits HUD to provide a preference for mortgages not already in the portfolios of entities. (C) Requires that the risk sharing agreement specify the percentage of loss that each party will assume in the event of default and that the parties share in the losses according to the agreement. (D) Requires that the agreement provide evidence acceptable to HUD of the capacity of such entity to fulfill reimbursement obligations. Specifies that evidence may include a full faith and credit pledge, pledged or otherwise restricted reserves, funds pledged through a State or local guarantee fund, or any other form acceptable to HUD. (E) Requires HUD to allow any entity to underwrite loans using their own criteria, terms and conditions, except the HUD may impose additional criteria, terms and conditions where HUD retains more than 50 percent of the risk of loss. Requires that the insured mortgage be in first position. (F) Authorizes HUD, if requested, to insure or reinsure or to make commitments to insure or reinsure any mortgage, advance, loan, or pool of mortgages pursuant to a risk sharing agreement as long as the entity carries out a review, with or without compensation, subject to audit and review, the underwriting and loan servicing functions that HUD typically requires and approves. Requires that appraisals conform to the Uniform Standards of Professional Practice. (G) Requires entities to make available to HUD financial and other records that HUD deems appropriate. (H) Prohibits any loans or mortgages under this program from covering rental housing that is transient housing or hotels. Defines rental housing for transient or hotel purposes as housing with rental periods less than 30 days.

(2) Clarifies that HUD is required to establish and enforce standards for eligibility of qualified participating entities.

(3) Extends the risk sharing demonstration for fiscal years 1995 and 1996.

(4) Clarifies that HUD is required to take any administrative actions necessary to implement the risk sharing program, rather than providing a specific time frame.

(5) Requires that in the case of tax credit projects, state tax credit allocating agencies certify that no more federal assistance is provided than is necessary to the feasibility of the project.

(6) Prohibits the Government National Mortgage Association from securitizing any loans under this risk sharing program.

(7) Requires that housing shall qualify as affordable housing only if it meets tax credit project eligibility for families

residing in the project.

(c) Amends the Housing Finance Agency Pilot Program. (1) Clarifies that qualified housing finance agencies include entities of States that provide mortgage insurance. (2) Clarifies that risk apportionment shall be in accordance with risk sharing agreements that govern each transaction. Requires that the insured mortgage be in first position. Requires entities to make available to HUD financial and other records that HUD deems appropriate. (3) Makes technical changes to the qualification as affordable housing.

(4) (A) Environmental reviews -- Authorizes HUD to delegate reviews under the National Environmental Policy Act of 1969 in accordance with regulations and detailed procedures, including required certifications, prescribed by the Secretary in consultation with the Council on Environmental Quality and subject to HUD monitoring requirements, except that monitoring shall not substitute for state or local reviews and certifications in the event that states and localities fail to complete reviews that have been delegated. (B) Lead based paint reviews -- The amendments also provide for delegation of any duties required of HUD to implement section 302 of the Lead Based Paint Poisoning Prevention Act. (C) Subsidy layering certifications -- Requires that housing shall qualify as affordable housing only if it meets tax credit project eligibility for families residing in the project.

(d) Defines "multifamily housing", "first mortgage", "mortgage", "qualified participating entity", "unit of general local government", and "state."

(e) Authorizes for appropriation \$6,439,560 in fiscal year 1995 and \$6,632,747 in fiscal year 1996 for the National Interagency Task Force on Multifamily Housing.

#### **Sec. 405. Indian Housing Loan Guarantees.**

Extends the authorization for the Indian Housing Loan Guarantee program through fiscal year 1996. Authorizes appropriations for the Guarantee Fund of \$50 million in each fiscal year 1995 and 1996.

#### **Subtitle B -- Multifamily Property Disposition**

##### **Sec. 431. Short Title**

Establishes this subtitle as the "Multifamily Housing Property Disposition Reform Act."

##### **Sec. 432. Disposition of Multifamily Housing Projects Owned by HUD**

(a) Findings: Provides Congressional findings that -- 1) the portfolio of multifamily housing project mortgages insured by the

FHA is severely troubled and at risk of default; 2) the inventory of HUD-owned multifamily housing projects is rapidly increasing; 3) the Federal cost of owning and maintaining multifamily housing projects is escalating; 4) the inventory of multifamily housing projects subject to HUD-held mortgages has increased dramatically; 5) the inventory of insured and formerly insured multifamily housing projects is rapidly deteriorating; 6) many of the more than 5 million families with a critical need for affordable and habitable housing could benefit from disposition of the HUD inventory; and 7) the current statutory framework for disposition of multifamily housing projects impedes the Government's ability to dispose of properties.

(b) Amends section 203 of the Housing and Community Development Amendments of 1978 to provide the following:

Goals: Provides that HUD is to manage or dispose of multifamily housing projects that are HUD-owned or subject to a HUD-held mortgage in a manner consistent with this section that is -- 1) consistent with the National Housing Act; 2) will, in the least costly fashion among reasonable alternatives, preserve housing for low-income persons; 3) will protect Federal financial interests; and 4) will, in the least costly fashion among reasonable alternatives, further the following goals: preserve and revitalize residential neighborhoods; maintain existing housing stock in a decent, safe, and sanitary condition; minimize the involuntary displacement of tenants; maintain housing for the purpose of providing rental housing, cooperative housing, and homeownership opportunities for low-income persons; and minimize the need to demolish multifamily housing projects. Provides that HUD may balance competing goals relating to individual projects in a manner that will further the purposes of this section.

Definitions: Defines, for purposes of this section:

1) Multifamily housing project -- Any multifamily rental housing project which is, or prior to acquisition by HUD, was assisted or insured under the National Housing Act, or subject to a loan under section 202 of the Housing Act of 1959.

2) Assisted project -- a multifamily housing project that prior to mortgage assignment or acquisition by HUD was receiving assistance in the form of -- i) rent supplement payments under section 101 of the Housing and Urban Development Act of 1965; ii) additional assistance payments under section 236(f)(2) of the NHA; iii) housing assistance payments under section 23 of the United States Housing Act of 1937; or iv) section 8 housing assistance (excluding tenant based assistance),

3) Affordable -- A unit is to be considered affordable if:  
A) for units occupied -- i) by for very low income families, the rent does not exceed 30 percent of 50 percent of the area median

income, as determined by HUD, with adjustments for smaller or larger families -- except that HUD can establish the rent based on an amount higher or lower than 50 percent based on HUD findings that this is necessary because of prevailing levels of construction costs or fair market rents, or unusually high or low family incomes; and ii) by low income families other than very low-income tenants, the rent does not exceed 30 percent of 80 percent of the area median income, as determined by HUD -- except that HUD can establish income ceilings higher or lower than 80 percent based on the same HUD findings described in subparagraph (A) above; or B) the unit, or the family residing in the unit, is receiving Section 8 assistance.

4) Date of disposition -- With respect to a multifamily property subject to these provisions, the date on which the project is acquired by a purchaser other than HUD at foreclosure or from HUD.

5) Low-income families and very-low income families -- Have the same meaning as under section 3(b) of the 1937 Act.

6) Preexisting tenant -- With respect to a multifamily housing project, a family that resides in a unit in the project before the date of disposition.

7) Market area -- A market area determined by HUD for purposes of establishing fair market rentals under section 8 of the 1937 Act.

8) Secretary -- The Secretary of Housing and Urban Development.

Management or Disposition of Property: 1) Disposition to purchasers -- Authorizes HUD to dispose of a HUD-owned multifamily housing project on a negotiated, competitive bid, or other basis deemed appropriate, considering the low-income character of the project, the housing market area, and the requirements of this section, to a purchaser, determined by HUD to be capable of: A) satisfying the conditions of the disposition; B) implementing a sound financial and physical management program to ensure that the property remains in a decent, safe and sanitary condition; C) responding to tenant needs; D) providing adequate organizational staff and financial resources; and E) meeting such other requirements as determined by HUD.

2) Contracting for management services -- Authorizes HUD to contract for management services for HUD-owned multifamily projects, or projects with HUD-held mortgages, on a negotiated, competitive basis, with a manager HUD has determined is capable of: A) implementing a sound financial and physical management program; B) responding to tenant needs; C) providing adequate organizational, staff and other resources; and D) meeting such other requirements as determined by HUD. Provides that HUD can



require the owner of a project subject to a HUD-held mortgage to similarly contract for management services. Provides that HUD may contract for management services with nonprofit organizations and public agencies, including public housing authorities.

Maintenance of Housing Projects: 1) Housing projects owned by the Secretary (or where HUD is mortgagee in possession) -- Requires HUD to: A) to the greatest extent possible, maintain occupied projects in a decent, safe and sanitary condition; B) to the greatest extent possible, maintain full occupancy in such projects; and C) maintain such projects for rental and cooperative housing purposes.

2) Housing projects subject to a HUD-held mortgage -- Requires the owner of the project to carry out the requirements of paragraph (1) above.

3) Housing standards -- Requires HUD, in disposing of any multifamily housing project under this section, to enter into an agreement with the purchaser under which the purchaser agrees that the project will be rehabilitated, and maintained in compliance with, any standards under applicable State or local laws, rules, ordinances or regulations relating to the physical condition of the housing, and any such standards established by HUD.

Required Assistance for Assisted Projects: Requires HUD, in disposing of any multifamily housing property that is acquired by a purchaser other than HUD at foreclosure or after sale by HUD, to contract with the owner of an assisted project for project-based section 8 contracts, to the extent budget authority is available, with the owners of multifamily housing projects. Such assistance is subject to the following requirements:

1) Number of units assisted -- Requires the contract to be sufficient to assist at least all units covered by a project-based rental assistance contract (rent supplement payments, assistance payments under section 236(f)(2) of the NHA, housing assistance under section 23 of the 1937 Housing Act, and section 8 assistance (excluding tenant-based assistance)), immediately prior to date of disposition.

2) Vacancies -- Requires the contract to provide that, when a vacancy occurs in any unit requiring project-based rental assistance under this subsection that is occupied by a family who is not eligible for Section 8 assistance, the owner must lease the unit to a Section 8 eligible family;

Option to Substitute Tenant Based Assistance in Soft Markets

1) Authority -- Where HUD determines that there is available an adequate supply of habitable, affordable housing for very low and low income families, HUD may provide tenant based section 8

assistance for families otherwise required to receive project based section 8 assistance, instead of project based assistance for the unit.

2) Family assisted -- Notwithstanding any other provision of law, the tenant based assistance provided under this paragraph shall only be provided on behalf of a preexisting tenant until the earlier of the expiration of the term of the housing assistance payments contract or when the family first fails to qualify for section 8 assistance. If the assistance is terminated for the preexisting tenant, the public housing agency administering the assistance may transfer the assistance to another eligible family.

3) Assistance contract -- Requires that tenant based assistance be provided pursuant to a contract between HUD and the appropriate public housing agency.

4) Applicability of restrictions -- Requires that the restrictions under subsection (g) apply to any unit in an assisted project where tenant based assistance has been substituted for project based assistance.

Required Availability and Affordability Restrictions for Unassisted Units -- 1) In general -- Provides that HUD require purchasers of multifamily housing sold pursuant to this section to establish use or rent restrictions for units not receiving section 8 assistance to ensure compliance, for the remaining useful life of the project, with the following requirements: A) that any unit not receiving section 8 assistance be available and affordable only to low income families; B) that not less than 40% of the units have rent restrictions affordable to very low income families; C) that any preexisting tenant, not receiving section 8 assistance, but residing in a rent restricted unit, may not pay more than 30% of adjusted income for rent beginning on the date of disposition until the family no longer qualifies as a low income family; and D) that rent increases of 30% or more for very low income families who prior to disposition are paying less than 30% of income will be phased in over not less than three years.

2) Assistance for very low income tenants -- Requires HUD to provide section 8 assistance for preexisting very low income tenants residing in rent restricted units if the rent for the unit is greater than 30% of the tenant's adjusted income.

3) Definition of "unassisted very low income family" -- For purposes of this section, provides that an "unassisted very low income family" is a family not receiving section 8 assistance.

Discretionary Actions and Assistance -- Provides that HUD may take one or more discretionary actions in addition to the required actions including: 1) Discounted sales price -- Provides

that HUD may reduce the selling price of any project so that the price reflects the intended use of the project after sale, necessary rehabilitation, rents for units that can be supported by the market, the amount of section 8 rental assistance available, and the occupancy profile.

2) Short-term loans -- Authorizes HUD to provide short-term loans to facilitate the sale of projects, provided that: A) authority is provided in advance in appropriations; B) the loans are for a term of not more than 5 years; C) HUD has obtained a commitment of permanent financing to replace the short-term loan from a lender who meets standards established by HUD; and D) the loan terms are consistent with prevailing practices in the marketplace, or will result in no cost to the Government. Authorizes an appropriation in each of fiscal years 1995 and 1996 of \$50 million to cover such loans and the cost of such loans.

3) Up-front grants and loans: A) In general -- Authorizes HUD to utilize the budget authority provided for project-based Section 8 contracts issued under this section, to i) provide up-front grants and loans to non-profit organizations or public housing agencies for the necessary cost of rehabilitation and other related development costs; or ii) pay any cost to the Government for such loans. B) Applicability of use restrictions -- Provides that the rent restrictions and use restrictions of subsection (g) shall apply to projects receiving an up front grant or loan. C) Authorization of Appropriation -- Authorizes an appropriation for fiscal years 1995 and 1996 of \$300 million in each year to cover the costs of the grants and loans and the costs of such loans.

4) Alternative uses -- A) In general -- Authorizes HUD, after providing notice and an opportunity to comment by existing tenants, to allow not more than 5% of the total number of units in projects disposed of by HUD each year to be made available for i) non-rental or non-cooperative uses, including low-income homeownership, community space, office space for tenant or housing-related service providers or security programs, or small business uses, if such uses benefit the project tenants; and ii) any other uses if HUD and the local government or area wide governing body determine that the use will further fair housing, community development, and neighborhood revitalization goals. B) Displacement protection: Provides that HUD may only take the actions described in subparagraph (A) above if: i) tenant-based assistance is made available to eligible tenants displaced due to actions under subparagraph (A) above; and ii) HUD determines that sufficient habitable, affordable rental housing is available in the market area to allow such use of tenant-based assistance.

5) Transfer for use under other programs of the secretary:

A) In general -- Provides that HUD may transfer a multifamily

housing project --i) to a public housing agency for use of the project as public housing; or ii) to an entity eligible to own or operate housing under assisted section 202 of the Housing Act of 1959, or section 811 of the Cranston-Gonzalez National Affordable Housing Act, for use as supportive housing. B) Requirements of agreement -- Requires an agreement providing for the transfer described in subparagraph (A) above to --i) contain such terms, conditions and limitations as HUD determines to be appropriate, including requirements to ensure use of the project as public housing or supportive housing, under applicable law; and ii) ensure that no tenant will be displaced by actions taken under this paragraph.

**Contract Requirements:** Requires that contracts for project-based assistance be provided subject to the following requirements:

1) Contract term -- Requires the contract to have a term of 15 years, except that: A) the term may be less than 15 years to the extent that HUD finds, based on rental charges and financing for the project, that the project's financial viability can be maintained; B) HUD must require, to the extent that units receive project-based assistance for a term of less than 15 years, that rents charged to the project's tenants for such units not exceed the amount of rent payable under section 3(a) of the 1937 Act (i.e., 30% of adjusted income of the family); and C) the term may be less than 15 years if the assistance is provided under a contract authorized under section 6 of the HUD Demonstration Act of 1993 (i.e., the Community Investment Demonstration Program), and pursuant to a disposition plan in compliance with this section.

2) Contract rent -- Requires HUD to establish contract rents for project-based rental contracts, issued under this section, at levels that provide sufficient amounts for the necessary costs of rehabilitating and operating the multifamily housing project and do not exceed 144 percent of the existing fair market rentals for the market area.

**Disposition Plan:** 1) In general -- Requires HUD, prior to the sale of a multifamily housing project that is HUD-owned, to develop an initial disposition plan for the project that specifies HUD's minimum terms and conditions for disposition of the project, HUD's initial acceptable sales price, and the assistance that HUD plans to make available to a prospective purchaser.

2) Market-wide plans -- Requires HUD to coordinate disposition of properties within the same market area as appropriate to carry out the goals of the property disposition provisions.

3) Sales price -- Requires that the price reflect the intended



use of the project after sale, necessary rehabilitation, rents for units that can be supported by the market, the amount of section 8 rental assistance available, and the occupancy profile.

4) Community and tenant input -- Requires HUD to develop procedures: A) to obtain appropriate and timely input into disposition plans from officials of the local government and State agency affected, the community where the project is located, and the project's tenants; and B) to facilitate the sale of projects to existing tenant organizations with demonstrated capacity, to public and nonprofit entities which represent or are affiliated with existing tenant organizations, or to other public or nonprofit entities.

5) Technical assistance -- Authorizes HUD, to carry out procedures under paragraph (4) above, to provide technical assistance, and to use amounts available for technical assistance in specified existing law. Permits recipients of technical assistance funding to make available technical assistance to the extent of such funding, notwithstanding the source of the funding.

Right of First Refusal for Local and State Government Agencies:

1) Notification of acquisition of title -- Requires HUD, 30 days after acquiring title to a multifamily housing project, to notify the local government (which includes the public housing agency) and the designated State agency, where the project is located, of the acquisition.

2) Right of first refusal -- Provides that HUD, for a period of 45 days from the time its acquires title to a project, may offer to sell, and may sell, the project to the local government or State agency.

3) Expression of interest -- Provides that the local government or State agency may submit to HUD a preliminary expression of interest in a project not later than 45 days after receiving the notification of acquisition by HUD of the project described subparagraph (1) above. Provides that HUD may require substantiation of this expression of interest.

4) Timely expression of interest -- Provides that if a timely expression of interest, and substantiation of such interest, if requested, is made by the local government or State agency, HUD must, upon approval of a disposition plan: A) notify the local government and State agency of the plan; and B) for 90 days after such notification, provide that only the local government or State agency may make an offer to purchase the project.

5) Failure to timely express interest -- Provides that if the local government or State agency does not timely express and, if requested, substantiate their interest in a project, HUD may

offer the project for sale to any interested person or entity upon approval of the disposition plan.

6) Acceptance of offers -- Provides that if the local government or State agency expresses and, if requested, substantiates interest in a project, HUD must accept an offer for the project, made by such entity during the 90 day period referred in subparagraph (4)(B) above, that complies with the disposition plan of the project. Provides that HUD may accept an offer that does not comply with the disposition plan, if it determines that the offer will further the goals of this section by actions that include extending the duration of low-income affordability restrictions, or enhancing the long-term affordability for low-income persons. Authorizes HUD to reduce the initial sales price in exchange for the extension of low-income affordability restrictions, and to facilitate affordable rents.

7) Failure to sell to local or state government agency -- Provides that if HUD and the local government or State agency cannot reach agreement on the offer to purchase within the 90 day period, HUD may offer the project for sale to the general public.

8) Purchase by unit of general local government or designated state agency -- Provides that a local government or State agency may purchase a subsidized or formerly subsidized project.

9) Applicability -- Provides that this subsection is to apply to projects acquired on or after the effective date of this subsection. Provides that HUD, with respect to projects acquired before such effective date, may apply existing law, or, under certain circumstances, the requirements in this section.

10) Transfer by local or state government agency purchasers -- Requires HUD to permit a local government or State agency to transfer projects acquired, under the right of first refusal under this subsection, to a private entity, as long as the local government or State agency identifies to HUD whether it may transfer the project after acquisition and before the project is transferred, identifies the date of transfer and the name of the transferee.

Displacement of Tenants and Relocation Assistance: 1) In general -- Requires HUD to identify tenants who will be displaced by the disposition of, or repairs to, a multifamily housing project that is HUD-owned, or for which HUD is mortgagee in possession, and to notify those tenants of their pending displacement and of available relocation assistance. Provides that where a project is not HUD owned, and HUD is not mortgagee in possession, HUD is to require the owner of the project to carry out the requirements of this paragraph.

2) Rights of displaced tenants -- Requires HUD to ensure, for any

displaced tenant, the right: A) to return, whenever possible, to a repaired unit; B) to occupy a unit in another HUD-owned project; C) obtain housing assistance under the 1937 Act; or D) to receive any other available relocation assistance HUD determines to be appropriate.

Mortgage and Project Sales -- 1) In general -- Prohibits HUD from approving a sale of any loan or mortgage held by HUD (including GNMA), on any subsidized project or formerly subsidized project, unless the sale is made a part of a transaction that ensures that the project will continue to provide rental housing on terms at least as advantageous to existing and future tenants as was required by the original subsidy program under which the loan or mortgage was made or insured.

2) Sale of certain projects -- Prohibits HUD from approving the sale of any subsidized project: A) that is subject to a HUD-held mortgage; or B) if the transaction involves an additional HUD subsidy, or a recasting of the mortgage, unless the sale is part of a transaction that will ensure the project's continued operation as rental housing on terms at least as advantageous to existing and future tenants as under the original subsidy program.

3) Mortgage sales to state and local governments -- Authorizes HUD, notwithstanding existing law, to negotiate sales of subsidized or formerly subsidized mortgages held by HUD, without the competitive selection of purchasers or intermediaries, to local governments and State agencies, or groups of investors that include a unit of local government or State agency, if negotiations are conducted with such agencies, except that: A) the purchasing agency or local government or State agency must agree to act as mortgagee or owner of a beneficial interest, consistent with maintaining projects for occupancy by the general tenant group intended to be served by the applicable mortgage program; and B) the sales prices for such mortgages shall be, as determined by HUD, the best prices that may be obtained for such mortgages from a local government or State agency, consistent with the retention of the projects for original use.

4) Sale of mortgages covering unsubsidized projects -- Authorizes HUD to sell mortgages held on unsubsidized projects on such terms and conditions as HUD may prescribe.

5) Definitions -- Defines "subsidized project", "formerly subsidized project", and "unsubsidized project" of this subsection.

HUD Disposition Team: 1) In general -- Requires HUD to establish and maintain within HUD a multifamily housing disposition team to direct and assist in the disposition of the inventory of HUD owned or HUD held properties at the time of enactment until such

time as the inventory is eliminated or substantially reduced.

2) Duties -- Requires that the sole responsibilities of the team are to facilitate the disposition of the properties subject to the reformed property disposition program.

3) Activities -- Requires the team to A) review the inventory; B) determine where the most inventory properties are located; C) make on site visits to HUD offices, giving priority to those offices identified as those where the most inventory properties are located; and D) assist local HUD staff establish schedules and disposition plans for addressing the inventory properties and to implement such schedules and plans.

4) Use of Existing Employees -- Provides that establishing this team can not be construed as requiring that HUD hire new employees.

Report to Congress: Requires HUD to submit a report to Congress, not later than June 1 of each year, describing the status of multifamily housing projects owned or subject to HUD-held mortgages.

#### **Sec.433. Clarification of Federal Preferences.**

Amends section 6(c)(4)(A)(i) and section 8(d)(1)(A)(i) of the 1937 Act, to clarify, as a preference for public housing tenancy and for Section 8 rental assistance, displacement because of disposition of a multifamily housing project.

#### **Sec.434. Amendment to National Housing Act.**

Establishes a new section 541 of Title V of the National Housing Act to provide that if HUD is requested to accept assignment of a mortgage insured by HUD that covers a multifamily housing project, and HUD determines that partial payment would be less costly than other reasonable alternatives for maintaining the low-income character of the project, HUD may request the mortgagee, in lieu of assignment, to: 1) accept partial payment of the claim under the mortgage insurance contract; and 2) recast the mortgage under terms and conditions determined by HUD. Requires the mortgagor, as a condition to a partial claim payment, to agree to repay HUD the amount of such payment, and this obligation must be secured by a second mortgage on the property on terms and conditions determined by HUD.

#### **Sec.435. Effective Date.**

Requires HUD to issue interim regulations to implement the multifamily property disposition sections of this Act, not later than 90 days after enactment of this Act. Provides that the interim regulations shall take effect upon issuance and invite public comment on the interim regulations. Requires HUD to issue final regulations, after opportunity for public comment, not later than 12 months after the issuance of the interim regulations.



### Subtitle C -- Secondary Mortgage Market Programs

#### Sec. 451. Limitation on GNMA Guarantees of Mortgage-Backed Securities

Limits aggregate GNMA mortgage-backed security guarantee authority to \$130 billion in each fiscal year 1995, and 1996. Authorizes such sums as may be necessary in each fiscal year 1995 and 1996 to cover the costs of such guarantees.

### Subtitle D -- Emergency Mortgage Relief

**Sec. 471. Amendments to Emergency Homeowner's Relief Act**  
Amends section 102 of the Emergency Mortgage Relief Act, Emergency Housing Act of 1975, to allow certain homeowners experiencing income reduction or unemployment, as a result of personal economic hardships, to be eligible to receive mortgage relief under this title. Requires that the mortgage payments have been delinquent for three months before assistance is provided (to begin after the enactment date). Requires that the property at risk is a 1- to 4- family residence. Authorizes such sums as may be necessary in each FY year 1995 and 1996 for this mortgage relief provision. Extends the date of termination of this Subtitle to September 30, 1996. Extends the notification period, which will, in part, promote forbearance in single family residential mortgage loan foreclosures specifically and require notification of foreclosures until September 30, 1996. Amends the existing definition of "federal supervisory agency" by replacing the Federal Home Loan Bank Board and the Federal Savings and Loan Insurance Corporation with the Office of Thrift Supervision. Amends the reporting requirement to require the Secretary to report to Congress annually, and excludes an existing requirement to track the default trends of multifamily properties.

## TITLE V -- RURAL HOUSING

#### Sec. 501. Program Authorizations

Authorizes for appropriation for insurance and guarantee authority in the aggregate of \$3,424,779,720 and \$3,527,523,112 in each of fiscal years 1995 and 1996, respectively, which includes the following amounts:

- \$1,802,500,000 and \$1,856,575,000 for insured and guaranteed loans under section 502 on behalf of low-income borrowers receiving interest credit;
- \$772,500,000 and \$795,675,000 for guaranteed loans on behalf of low and moderate income borrowers under the section 502(h) single family guaranteed loan program;
- \$36,050,000 and \$37,131,500 for home improvement loans under section 504;

- \$18,053,950 and \$18,595,569 for insured loans under the section 514 farm labor housing program;
- \$793,675,770 and \$817,486,043 for insured loans under the section 515 rural rental housing program;
- \$1,000,000 and \$1,030,000 for loans under the section 523(b)(1)(B) self help housing loan program;
- \$1,000,000 and \$1,030,000 for site loans under section 524

Requires that notwithstanding any other provision in law, no loan authority may be transferred for any other purpose than that specified in this title.

Authorizes for appropriation for grants in fiscal years 1995 and 1996, respectively, the following amounts to be made available until expended:

- \$10 million in each fiscal year for grants to nonprofit entities as technical assistance payments for the purchase of preservation properties;
- \$31,000,000 and \$31,930,000 for section 504 home repair grants
- \$1,000,000 and \$1,030,000 for construction defects under section 509(c);
- \$5,688,278 and \$5,858,926 for section 509(f)(6) project preparation grants;
- Such sums as may be necessary for section 511 notes and obligations to meet payments on notes or other obligations issued by the Secretary equal to the aggregate of the credit contributions for principal payments under section 503 and any interest due;
- \$1,073,260 and \$1,105,458 for service coordinators under section 515(y);
- \$23,289,742 and \$23,988,434 for financial assistance for section 516 (a)-(j) domestic farm labor housing;
- \$11,269,230 and \$11,607,307 for section 516(k) housing for rural homeless and migrant farmworkers;
- \$14,918,314 and \$15,365,863 for section 523 mutual and self-help housing grants;
- \$33,056,408 and \$34,048,100 for section 533 housing preservation grants;

-- \$10 million in fiscal year 1995, remaining available through fiscal year 1997, for grants for Native American rural housing capacity demonstration program; and

-- \$20,000,000 and \$20,600,000 for the section 539 Rural Community Development Initiative.

Authorizes section 521 rental assistance payment contracts and operating assistance for migrant housing aggregating \$454,079,620 in fiscal year 1995 and \$467,702,009 in fiscal year 1996.

Authorizes 5 year supplemental rental assistance contracts under section 513(d) aggregating \$13,070,160 in fiscal year 1995 and \$13,462,265 in fiscal year 1996.

Authorizes the rural housing voucher program at \$144,200,000 in fiscal year 1995 and \$148,526,000 in fiscal year 1996.

Authorizes permanent authority for the section 515 rural rental housing program.

#### **Sec. 502. Section 502 Homeownership Loans.**

Strikes the security grant program as loan supplements in remote rural areas and requires the Secretary to consider as adequate security for homeownership loans in remote rural areas, including tribal allotted or Indian trust land, where the borrower resides or is employed, as the actual cost of the property and structure.

Establishes the deferred mortgage program as a permanent program.

Amends section 505 to include reamortization in the title.

Provides that the Secretary may not foreclose on a mortgage under a moratorium solely because the borrower can not repay the loan. Requires the Secretary to enter into an agreement with the borrower at the end of the moratorium period to provide authorized assistance and permits the Secretary to foreclose only if the borrower fails to make 3 monthly payments.

Authorizes the Secretary, in order to enable the borrower to retain possession of the home securing the loan, to (1) reamortize any section 502 loan for a period not to exceed 38 years from the date of the making of the loan, subject to requirements of a graduated repayment agreement; or (2) to refinance or make a new loan under section 502, using the proceeds to liquidate the outstanding indebtedness. Authorizes the Secretary to establish a schedule of loan payments less than the original payments for a period not exceeding 3 years.

#### **Sec. 503. Prepayment of Rural Rental Housing Loans.**

Authorizes the Secretary, subject to appropriations, to make technical assistance grants, not exceeding \$50,000, to nonprofits and public agencies purchasing projects subject to the prepayment

provisions. Provides that the grant may cover reasonable costs as determined by the Secretary excluding the purchase price, including appraisals, financing fees, accounting, legal fees, architectural and engineering fees, application fees, overhead, and other expenses.

Authorizes the Secretary to provide equity take out loans for section 514 farm labor housing loans as an incentive to owners subject to the prepayment restrictions to preserve the housing as affordable farm labor housing under the same requirements and conditions applied to owners and projects under the section 515 rural rental housing program. Makes a technical correction to section 515, changing the applicable date for prepayment to December 15, 1989.

Requires that owners receiving incentives under the preservation program may increase rents for current tenants (except those necessary for increased operating costs) in phases equally over a period not less than 3 years if the increase is 30 percent or more and must limit increases to not more than 10 percent per year if the increase is more than 10 percent but less than 30 percent.

Requires that loans that are accelerated upon default shall be subject to the prepayment restrictions applicable to loans where no payment has been tendered in the case of acceleration upon default. Makes necessary conforming changes.

Establishes a new test for allowable prepayments of rental housing loans. Requires that the Secretary make a written finding that the prepayment (1) will not materially increase economic hardship for current tenants; (2) will not involuntarily displace current tenants where comparable housing is not available in the absence of federal housing assistance; and (3) that the supply of vacant, comparable housing is sufficient to ensure that prepayment will not materially affect the availability of decent, safe, sanitary, and affordable housing, the availability of such housing near employment opportunities, or the housing opportunities of minorities.

#### **Sec. 504. Designation of Underserved Areas and Reservation of Assistance.**

Extends the authorization of the underserved areas program for fiscal years 1995 and 1996. Establishes 2 fiscal year designation for targeted underserved areas other than Indian areas and 3 fiscal year designation for Indian areas, starting in fiscal year 1995.

#### **Sec. 505. Administrative Appeals.**

Defines adverse decision to include eviction and requires that administrative appeals include an agency hearing on the record for such adverse decision.



**Sec 506. Section 515 Rural Rental Housing**

Extends the set-aside for nonprofit entities to fiscal year 1995 and 1996.

Authorizes the Secretary to approve sequential transfers of loans where more than one transfer entity is involved, if the transfer is in the best interest of the tenants and the Federal government.

Authorizes the Secretary to refinance outstanding principal obligations in order to reduce debt service, rents, and rental assistance necessary for rural rental housing according to such terms and conditions as are appropriate to this authority and the original loan. Requires that the original usage of the housing and related facilities continue to apply. Requires that loans shall be considered as loans originally made for purposes of prepayment restrictions, although the new terms may be considered for incentives and determining value. Requires the Secretary to establish any requirements and conditions of such refinancing. Requires the Secretary to establish an expedited procedure for refinancing loans which does not require the same application procedures as the original loan and includes consideration of any information available to the Secretary in servicing the original loan.

**Sec. 507. Rental Assistance Payments.**

Authorizes the Secretary to provide operating assistance for migrant farmworker projects at the request of the owner in lieu of rental assistance. The operating assistance can not exceed 90 percent of the operating costs for the project for the year, as determined by the Secretary. Specifies that the project must be made available to migrants farmworkers who pay rent not exceeding 30 percent of adjusted income. Requires the owner requesting operating assistance to submit to the Secretary an annual operating budget and estimated rental income. Defines migrant farmworker and operating cost. Provides conforming amendments.

Establishes a set-aside of rental assistance for new construction. Requires the Secretary to reserve rental assistance for new section 515 projects in an amount not less than an average percentage of such amounts for the most recent completed 3 fiscal years that was provided for new section 515 loans.

**Sec. 508. Rural Housing Assistance Targeting Report**

Requires the Secretary to submit a report to Congress not later than 180 days after the close of each fiscal year which describes the geographical distribution and loan and grant amounts of housing applied for and approved each fiscal year and the extent of the rural character of the areas in which loans and grants are made.

**Sec. 509. Priority for Rural Housing Voucher Assistance**

Requires that priority for voucher assistance be provided for rental housing that is assisted under this title and that has a significant vacancy problem for extended periods or is occupied by a significant number of families who are rent overburdened. Authorizes the Secretary to enter into project based voucher assistance for such assistance.

**Sec. 510. Native American Rural Housing Capacity Demonstration Program**

(a) Authorizes the Secretary to implement a program to demonstrate the effectiveness of assisting Native Americans and Alaskan Natives in underserved areas to apply for, obtain, and use housing assistance under this title.

(b) Requires the Secretary to make grants to certain technical assistance providers for activities under this section. Requires that 40 percent of the amounts made available be disbursed in fiscal year 1995, 30 percent disbursed in fiscal year 1996, and 30 percent disbursed in fiscal year 1997.

(c) Requires that amounts provided to technical assistance providers be used for certain eligible activities including training for employment as local project coordinators and training with respect to housing program use and application procedures for tribes and tribal members; on-going technical assistance and training; assistance to selected tribes or housing organizations to employ local coordinators; and revolving loan fund to provide loans to tribes and members of tribes for customary and reasonable costs of applying for housing assistance, except that not more than \$1500 may be provided to any one tribe or organization. Defines "local project coordinator" as an individual who is employed by a selected tribe or organization; provides technical assistance regarding housing programs; facilitates use of such assistance; and assists tribes and members of tribes obtain loans from the revolving loan fund.

(d) Requires that selected tribes enter into an agreement with the technical assistance provider to provide in kind or financial assistance, in addition to grant amounts, including space, equipment, transportation, salary enhancement, fringe benefits, and other forms of assistance.

(e) Requires the Secretary to provide that the technical assistance funds through the technical assistance provider(s) are provided to not more than 15 tribes that located in counties or communities eligible as targeted underserved areas or that include tribal allotted or Indian trust land and that have agreed to designate individuals as local coordinators or are located in a county or community where a Native American or Alaskan Native housing organization is located and agreed to participate in the demonstration program.

Requires the technical assistance provider to select tribes for participation according to criteria that include the extent of substandard housing on the reservation; the extent of waiting lists for federal housing programs; the extent of interest in and willingness to participate for the 3 year period; and the extent of willingness to provide in kind or financial assistance.

Requires that notwithstanding the designations under the targeted underserved areas program and the definition of rural area, any area selected as part of this demonstration shall be considered a targeted underserved area for fiscal years 1995, 1996 and 1997. for purposes of funding.

(f) Authorizes the Secretary to make a grant to nonprofits with experience in training and technical assistance and which has administered a housing revolving loan fund. Requires that applications for grant assistance be submitted not more than 45 days after publication of a notice of funding availability. Requires the Secretary to select technical assistance provider(s) to receive grants within 30 days after receipt of applications to organization(s) that are capable, knowledgeable, and experienced in providing technical assistance and about housing needs, issues, and programs of and for Native Americans and Alaskan Natives; and agree to comply with the demonstration program.

(g) Requires local project coordinators to submit an activity report within 30 days of the end of the fiscal year to the technical assistance provider; requires the technical assistance provider(s) to submit an activities report to the Secretary within 60 days of the end of the fiscal year; and requires the Secretary to submit a report to Congress summarizing the demonstration and activities not later than 90 days after the conclusion of the fiscal year.

(h) Defines "Alaskan Native Village," "Native American or Alaskan Native Housing Organization", "nonprofit organization," "selected area," "technical assistance provider," and "tribe," for purposes of this demonstration.

(i) Requires the Secretary to publish a notification of funding availability (NOFA) for grants under the demonstration not later than the expiration of a 90 day period after amounts are appropriated. Requires that the NOFA include the requirements for receiving assistance, the purposes of the grant and permissible uses of grant funds, the address for additional assistance, and a deadline for submission of applications for grant assistance.

#### **Sec. 511. Rural Community Development Initiative**

Authorizes the Secretary to provide assistance to develop the capacity of community development corporations, community housing

development organizations, and other nonprofits to undertake community development and affordable housing projects and programs in rural areas. Provides that assistance may be used for training, education, support, and advice to enhance the technical and administrative capabilities of eligible recipients under this section; for loans, grants, or predevelopment assistance to eligible recipients of grant funds to carry out housing and community development activities that benefit low income families; and any other activities as determined by the Secretary. Requires that grants be matched from private sources in amounts equal to 3 times the federal grant provided. Requires the Secretary to establish requirements in notice for effect to implement the Initiative.

**Sec. 512. Rural Housing Loan Delegated Processing Demonstration**  
 Authorizes the Secretary not later than 180 days after enactment to establish a system of delegated processing to nonprofit organizations for section 502 homeownership loans. Requires the Secretary to retain the authority to approve loan amounts and interest credit agreements and to execute make binding commitments and credit agreements. Requires that this authority be implemented only in targeted underserved areas. Requires the Secretary to submit a report to Congress not later than 12 months after date of initial implementation of the demonstration. Terminates the demonstration after September 30, 1996.

## **TITLE VI -- COMMUNITY DEVELOPMENT**

### **Subtitle A -- Community Development Block Grant Program**

#### **Sec. 601. Authorization of Appropriations and Guarantee Authority.**

Authorizes \$4,532,000,000 for FY 1995, and \$4,667,960,000 for FY 1996 to be used to provide units of general local government with community development block grants (Title I of the Housing and Community Development Act of 1974).

Limits the amount expended to guarantee notes or obligations issued by public entities for eligible activities under this section (section 108 of the Housing and Community Development Act of 1974) to \$2,115,620,000 for FY 1995, and \$2,179,088,600 for FY 1996.

Authorizes funding for special purpose grants for a total of \$60 million in each fiscal year 1995 and 1996 which includes: (1) \$7 million for insular areas, (2) \$6.5 million for historically black colleges, (3) \$6 million for a state or unit of local government that jointly applies for a grant with an institution of higher learning to conduct eligible activities, (4) \$6 million for inner-city revitalization, (5) \$3 million for work study grants for minority and economically disadvantaged students, (6) what may be necessary to provide grants for state and local



governments whose initial grant was miscalculated, for additional technical assistance, and for planning community development and economic diversification activities, and (7) \$2 million in supplemental funds.

**Sec. 602. Economic Development Grants.**

Amends the section 108 loan guarantee program to allow any funds previously obligated, but not expended, from Urban Development Action Grants (UDAG) under section 119 of the HCDA, to be deobligated and made available for grants to be used in conjunction with the loan guarantee program.

Requires that the proceeds of the loan and grant under this section be used only for the purpose of carrying out economic development activities which must be described in the application and approved by the Secretary.

Requires that the grant is awarded upon the Secretary's receipt, and subsequent approval of the grant application submitted by a public entity. Allows the Secretary to determine the application process and to require the simultaneous submission of the grant application and the loan guarantee assistance application.

Provides that the grant must be distributed on a first-come, first-served basis.

Requires the Secretary to issue regulations to implement this section.

Expands the use of funds appropriated to carry out the UDAG program to include funding the grant program under this section. Subjects the grant program to the existing CDBG National Objectives. Requires that the grant meets the CDBG requirement that at least 70% of funds allocated benefit persons of low-and moderate-income.

Prohibits the Secretary from issuing a loan guarantee or a guarantee used along with the grant program unless the grantee has attempted to finance the loan without the use of the guarantee and cannot complete the proposed activities without the use of the guarantee.

**Section 603. Guarantee of Obligations Backed by Section 108 Loans.**

Requires the Secretary to guarantee the timely payment of principal and interest on trust certificates and obligations as offered for the purposes of this subsection and as based on by a trust or pool composed of notes or other obligations guaranteed by the Secretary. Pledges the full faith and credit of the U.S. to the payments of all amounts guaranteed by the Secretary.

Subrogates the rights fully to the Secretary upon payment of a

claim guaranteed under this section.

Authorizes the Secretary's power to preempt federal, state and local law in order to contract concerning (1) public offerings and other sales of notes, trust certificates, and other obligations guaranteed, (2) the right to enforce any such contract, and (3) any ownership rights of the Secretary in notes, certificates or other obligations under the section or constituting the trust or pool against which certificates or other obligations guaranteed under this section are offered.

**Sec. 604. Section 108 Loan Guarantees for Colonias**  
Amends section 108(a) of the HCDA to allow colonias, as defined in section 916 of the Cranston-Gonzalez National Affordable Housing Act of 1990 (NAHA), to participate in the section 108 program to conduct public works activities under section 105(a)(2) of the HCDA.

**Sec. 605. CDBG Assistance for Colonias**  
Extends the authority of section 916 of NAHA to 1996.

#### **Subtitle B -- Other Community Development Programs**

**Sec. 631. Neighborhood Reinvestment Corporation**  
Authorizes \$32,960,000 for FY 1995, and \$33,948,800 for FY 1996 to conduct eligible activities under the Neighborhood Reinvestment Corporation Act.

**Sec. 632. John Heinz Neighborhood Development Program**  
Authorizes \$5 million for FY 1995, and \$5,150,000 for FY 1996 of the amounts made available under section 103 of the Housing and Community Development Act of 1974 for this section to be used to carry out activities under section 123(g) of the Housing and Urban-Rural Recovery Act of 1983.

### **TITLE VII -- REGULATORY AND MISCELLANEOUS PROGRAMS**

**Sec. 701. Fair Housing Initiatives Program.**  
Authorizes \$26,780,000 for FY 1995, and \$27,583,400 for FY 1996, for the Fair Housing Initiatives program (section 561 of the Housing and Community Development Act of 1987), of which, not less than: 1) \$3,820,000 in FY 1995, and \$8,500,000 in FY 1996 is to be for private enforcement initiatives; 2) \$2,230,000 in FY 1995 and \$8,500,000 in FY 1996 is to be for qualified fair housing enforcement organizations; 3) \$2,010,000 in FY 1995 and \$4,000,000 in FY 1996 is to be for the creation of new fair housing organizations; and 4) \$2,540,000 in FY 1995 and \$5,000,000 in FY 1996 is to be for education and outreach programs.

**Sec. 702. HUD Program Monitoring and Research**

Authorizes such sums as may be necessary for FY 1995 and FY 1996 to conduct HUD monitoring and research development (section 7 of the Department of Housing and Urban Development Act).

**Sec. 703. HUD Salaries and Expenses**

Authorizes \$1,150,000,000 for FY 1995, and \$1,184,500,000 for FY 1996 for HUD salaries and expenses (section 7(s) of the Department of Housing and Urban Development Act). Sets aside \$96 million in each fiscal year 1995 and FY 1996 to fund staff for the multifamily mortgage insurance program under Title II of the National Housing Act. Sets aside \$5 million in each fiscal year 1995 and 1996 for staff training and capacity building.

**Sec. 704. Subsidy Layering Review.**

Amends section 911 of the Housing and Community Development Act of 1992 to repeal the requirement that the Secretary develop guidelines for tax credit allocation agencies to review projects to determine whether subsidy is no more than is necessary to provide affordable housing (or compliance with section 102(d) of the HUD Reform Act of 1989). Requires that certifications, pursuant to guidelines prescribed by the Secretary, by state credit allocation agencies shall be sufficient to determine compliance with section 102(d) and that the combination of tax credits and federal subsidy is no more than is necessary to produce affordable housing. Provides that if the credit agency has failed to comply with the guidelines in issuing its certification, the Secretary may refuse to accept such certifications and shall resume anti-subsidy layering reviews.

**Sec. 705. HUD Research and Development**

Authorizes \$36,050,000 for FY 1995, and \$37,131,500 for FY 1996 for the Department of Housing and Urban Development to conduct research and Development (section 501 of the Housing and Urban Development Act of 1970).

**Sec. 706. National Institute of Building Sciences**

Authorizes \$2 million in each fiscal year 1995 and 1996 to carry out programs administered by the National Institute of Building Sciences (section 809(i) of the Housing and Community Development Act of 1974).

**Sec. 707. Residential Lead-Based Paint Hazard Reduction.**

Authorizes \$257,500,000 in FY 1995, and \$265,225,000 in FY 1996 for grants for lead-based paint hazard reduction in target housing (section 1011 of the Housing and Community Development Act of 1992). Sets-aside \$3 million in each fiscal year 1995 and 1996 for technical assistance and capacity building. Authorizes HUD to make grants up to \$200,000 in FY 1995 and \$200,000 in 1996 for State training, certification or accreditation programs. Sets-aside \$5,000,000 in FY 1995, and \$5,000,000 in FY 1996 for HUD research (sections 1051-1053 of the Housing and Community

Development Act of 1992).

**Sec. 708. New Towns Demonstration Program for Emergency Relief of Los Angeles**

Extends the Secretary's authority, to the extent provided in appropriations act, to enter into commitments to insure loans and mortgages under the National Housing Act for an amount not to exceed such sums as may be necessary.

Authorizes such sums as may be necessary for FY 1995 and FY 1996 for second mortgage assistance (section 1105(e) of the Housing and Community Development Act of 1992).

Authorizes such sums as may be necessary for capacity building under section 1106(h) of the Housing and Community Development Act of 1992.

**Sec. 709. Solar Assistance Financing Entity.**

Authorizes to be appropriated for the Solar Bank, \$10,732,600 for FY 1995 and \$11,054,578 for FY 1996.

**Sec. 710. National American Indian Housing Council.**

Authorizes to be appropriated for assistance for the National American Indian Housing Council \$1 million in fiscal year 1995 and \$1,030,000 in fiscal year 1996 for providing training and technical assistance to Indian housing authorities.

**Sec. 711. Housing Assistance Council.**

Authorizes to be appropriated for assistance for the Housing Assistance Council \$5 million in fiscal year 1995 and \$5,150,000 in fiscal year 1996 for providing training, technical assistance and financial assistance to develop affordable housing in rural areas.

**TITLE VIII -- HOUSING PROGRAMS UNDER STEWART B. MCKINNEY  
HOMELESS ASSISTANCE ACT**

**Sec. 801. Short title.**

Provides that this title may be cited as the "Stewart B. McKinney Homeless Housing Assistance Amendments Act of 1994."

**Subtitle A -- Housing Assistance.**

**Sec. 811. Emergency Shelter Grants.**

Authorizes for the Emergency Shelter Grants program (Title IV, subtitle B of the McKinney Act), \$150,000,000 for FY 1995, and \$154,500,000 for FY 1996.

**Sec. 812. Supportive Housing Program.**

Authorizes for the supportive housing demonstration program



(Title IV, subtitle C of the McKinney Act) \$344,020,000 for FY 1995, and \$354,340,600 for FY 1996.

**Sec. 813. Safe Havens For Homeless Individuals Demonstration Program.**

Authorizes for the Safe Havens for Homeless Individuals Demonstration Program (Title IV, subtitle D of the McKinney Act) \$66,542,120 for FY 1995, and \$68,538,384 for FY 1996.

**Sec. 814. Section 8 Assistance for Single Room Occupancy Dwellings.**

Authorizes for section 8 assistance for single room occupancy dwellings (section 441 of the McKinney Act) \$200,000,000 for FY 1995, and \$206,000,000 for FY 1996.

**Sec. 815. Shelter Plus Care Program.**

Authorizes for rental assistance under the Shelter Plus Care program (Title IV, subtitle F of the McKinney Act) \$150,000,000 for FY 1995, and \$154,500,000 for FY 1996.

**Sec. 816. Rural Homelessness Grant Program.**

Authorizes for the Rural Homelessness Grant Program (Title IV, subtitle G of the McKinney Act) \$32,197,800 for FY 1995, and \$33,163,734 for FY 1996.

**Sec. 817. Strategy to Eliminate Unfit Transient Facilities.**

Amends section 825 of the Cranston-Gonzalez National Affordable Housing Act to extend the time, from July 1, 1994 to July 1, 1996 for HUD to develop and publish a strategy to eliminate State and local government use of unfit transient facilities as housing for homeless families with children.

**Sec. 818. Innovative Homeless Initiatives Demonstration Program.**

Extends the repeal date for the Innovative Homeless Initiatives Demonstration Program (section 2 of the HUD Demonstration Act of 1993) from October 1, 1994 to October 1, 1996. Authorizes \$206,000,000 for FY 1995, and \$212,180,000 in FY 1996 for this program.

**Subtitle B -- Interagency Council on the Homeless.**

**Sec. 831. Authorization of Appropriations.**

Authorizes for the Interagency Council on the Homeless (Title II of the McKinney Act) \$1,609,890 for FY 1995, and \$1,658,187 for FY 1996.

**Sec. 832. Extension.**

Extends the termination date for the Interagency Council from October 1, 1994 to October 1, 1996.

**Subtitle C -- Federal Emergency Management Food and Shelter Program.**

**Sec. 851. Authorization of Appropriations.**

Authorizes for the Federal Emergency Management Food and Shelter Program (Title III of the McKinney Act) \$193,186,800 for FY 1995, and \$198,982,404 in FY 1996.

# APPENDIX

March 10, 1994

Opening Statement  
Chairman Henry B. Gonzalez  
Administration's Rural Housing Priorities and GAO Review  
March 10, 1994

Today we welcome Michael V. Dunn, Administrator of the Farmers Home Administration, in his first appearance before the Subcommittee and our good friend, Judy England-Joseph, Director of Housing and Community Development Issues at the General Accounting Office in the second of our reauthorization hearings this legislative session. Their testimony will focus on the administration's rural housing priorities and GAO's broad and incisive review of work completed since the last reauthorization bill which has important statutory implications for our consideration.

As you know, I introduced H.R. 3838, the Housing and Community Development Act of 1994, with 20 members of the Committee as original co-sponsors on February 10. This legislation includes the regular reauthorizations required, technical and clarifying changes, and a number of rural housing initiatives.

We have also included several rural housing provisions which I note the administration will propose, such as permanent authority for the section 515 rural rental housing program, even in the face of recent revelations about serious health and safety violations in projects in several states. I note that the Department believes, as I do, that these problems should not be seen as an indictment of the section 515 rural rental housing program. We are particularly interested in Mr. Dunn's comments



about these provisions and the recent activity surrounding the section 515 program.

We are also interested in learning about the administration's budget priorities and the planned reorganization of the Department of Agriculture, the break-up of the Farmers Home Administration and the creation of the Rural Housing and Community Development Service. I know I have serious reservations about the budget request, specifically the increase in the borrower's share for the section 502 single family direct loan program and the sharp reduction in funds for the section 515 rural rental housing program. I believe that these requests will have grave consequences for our ability to provide affordable housing to our nation's most vulnerable, very low income rural families.

Finally, Mr. Dunn, I would like to thank you for providing Subcommittee members with such extensive and informative briefing materials.

Ms. England-Joseph, since the consideration of the last reauthorization legislation, the GAO has completed or initiated a number of studies on programs and policies which we will consider again this year. Some of their findings have already been incorporated into H.R. 3838.

Once again, the Subcommittee is interested in your review of these studies and their implications for this year's legislation. Specifically, we are interested in your recommendations about the major issues GAO has examined, including property disposition, loan servicing and default prevention, the section 8 program such

as the merger of certificates and vouchers and fair market rents, community development, economic development, homelessness, and several rural housing issues. The GAO's insights have always been invaluable to us in our deliberations concerning housing and community development legislation.

I look forward to the testimony of our witnesses.

3/10/94

OPENING REMARKS  
HONORABLE MARGE ROUKEMA - HOUSING SUBCOMMITTEE  
FMHA/GAO

Thank you Mr. Chairman. I want to welcome our witnesses here today as we continue our hearings on the reauthorization of federal housing programs.

Mr. Chairman, a very interesting and extraordinary event took place last January 27. On that day at his testimony before the Senate Committee on Governmental Affairs, Charles Bowsher, head of the General Accounting Office, announced that the GAO was adding the entire Department of HUD to their list of "high risk" agencies.

This was the first time an entire Federal Department was placed on that list.

In his statement, General Bowsher said, "HUD has had a history of fundamental management and organization problems that put billions of dollars at risk; an organizational structure that blurs accountability; inadequate information and financial management systems; and staff without the skills needed to effectively manage programs."

Mr. Chairman, this is an extraordinary indictment of the operations at HUD and should be a serious warning to this Committee that we must be ever more vigilant in overseeing this agency and very apprehensive about approving any more new programs for that Department.

Mr. Chairman, the problems at HUD certainly should not be seen as a reflection on the new team over there. However, the fact that the GAO has decided to take this action now does suggest that what is going on in HUD under the new regime may not present a convincing argument to the GAO that adequate measures to solve some of these problems are being taken.

In fact, you will recall that just two weeks ago when Secretary Cisneros testified before this Committee he outlined his top five priorities. To the dismay of many, management improvements at HUD were his fifth and last priority.

Mr. Chairman, this Committee must, in the strongest words possible, insist that meaningful management improvement at HUD be the top priority and that we should declare a moratorium on all new initiatives at HUD until we can be assured that existing programs are more effectively and efficiently serving the low-, and moderate income families that they were created to serve.

Similarly, Mr. Chairman, the GAO had already placed several loan programs administered by the Farmers Home Administration on their "high risk" list.

And, last week the Department of Agriculture revealed that it was conducting a new investigation of its programs, including the Section 515 loan program, amid reports that waste, fraud and abuse are running rampant in these programs.

Mr. Chairman, what we surely don't need around here is another scandal involving housing programs. I hope the Farmers Home can get to the bottom of this latest episode fast and solve the problem.

Thank you Mr. Chairman.

MICHAEL V. DUNN, ADMINISTRATOR  
FARMERS HOME ADMINISTRATION  
UNITED STATES DEPARTMENT OF AGRICULTURE  
Before the  
SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT  
HOUSE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS  
MARCH 10, 1994

Good morning Mr. Chairman and Members of the Subcommittee. Thank you for this opportunity to discuss the Farmers Home Administration housing programs. These programs contribute strongly to President Clinton's mission of strengthening the economy and improving the quality of life for thousands of people in rural America.

**FmHA's Housing Mission**

I am privileged to represent the Administration in a partnership with this Subcommittee, and Congress, to help provide decent living conditions to people who just could not afford it on their own. These programs are doing what government programs should do. That is to help people who need help but cannot find it anywhere else.

Some statistics paint a vivid picture of the economic condition of the people we serve. For instance, the median household income in rural areas is \$27,000. The average income of FmHA home buyers is \$16,700 a year and tenants renting apartments in FmHA funded projects make an average of \$7,932 per year.

Recent surveys show that 97.9 percent of all tenants in FmHA multi-family housing projects are in the low income category. Eighty-seven percent of the tenants are considered very low income. That is up from 68 percent in 1986. The average income of families living in FmHA rural rental housing is only 30 percent of the rural median income.

**Homeless**

Even though we can reach very low income people, there are still those who have fallen on bad times and at least temporarily cannot afford our housing even with rental assistance. In rural areas, these people are largely unseen and uncounted.

In the spirit of the President's Executive Order Number 12848 of last May 19, Farmers Home has been reviewing its on-going programs to help prevent homelessness and exploring new ways to help homeless people where possible.

For instance, at the same time there are families with no place to live, Farmers Home has inventory housing that is vacant.

In an effort to get the homeless and our vacant housing together, we have started a program whereby inventory housing, not suitable for our regular program, is rented or sold to nonprofit organizations. They, in turn, provide transitional housing for the homeless.



FmHA repairs the houses to meet local health and safety standards. Typically, FmHA rents the houses to the organizations for \$1.00 per year. Rent charged by the organizations cannot exceed the actual cost to the organization including administrative expenses. Presently, 109 properties are leased to nearly 35 organizations in 17 states.

#### **Supervised Credit**

Helping people at the low end of the economic scale is very rewarding but also very challenging. We cannot just put a program out there and expect people to become successful home owners on their own. A certain amount of supervision and personal assistance is required.

The majority of Farmers Home borrowers are hard working, honest people. They try to pay their bills on time. And when they don't, it's sometimes because of the loss of a job, unexpected health expenses or some other problem beyond their control. Delinquency rates are surprisingly low considering the circumstances. The national single family delinquency rate is 8.7 percent.

It is a fact of life that many FmHA customers have a limited education, are single parents, or have other social and economic problems. We recognize that these situations can have a profound effect on the ability to meet rent or mortgage payments. That's the reason that this Administration is emphasizing supervised credit.

Supervised credit means more than just checking the books each month to be sure payments are made on time. In the single family housing program, for instance, it means meeting with borrowers even before an application is made. It means explaining the program in detail, pointing out the responsibilities that go along with home ownership and providing counseling when necessary.

Supervised credit also means establishing enough rapport with borrowers so they feel comfortable enough to come in to the FmHA office when problems first develop rather than waiting until it is too late. Farmers Home can and will provide additional subsidy payment moratoriums with loan rescheduling, and do everything within our authority to help borrowers who fall on bad times due to circumstances beyond their control. Our goal is to keep the homeowners in the home by providing supervised credit, while at the same time protecting the interests of the taxpayers.

One of the initiatives in this regard is establishing escrowing for single family housing borrowers. Currently, homeowners receiving FmHA assistance are required to make their tax and insurance payments directly to insurance companies and taxing authorities. As you can imagine, it is difficult to budget for these large, lump-sum payments, particularly for people with limited incomes. We are in the process of establishing the mechanism to permit escrowing so that the tax and insurance payments can be paid monthly along with the mortgage.

We believe there will be a substantial financial savings in administrative and accounting costs when we get escrow in place. Currently, for instance, we pay out about \$20 million to pay taxes that our borrowers fail to pay. We try to get that back but by then many of those borrowers are in debt well over their head.

The present accounting system called PLAS for Program Loan Accounting System is antiquated and costly. The proposed system will be streamlined and much more efficient. The task force looking at the escrow/accounting system will soon make recommendations for the development and hardware needed. Although this initiative is in its infancy, we are looking at implementing it by October 1, 1996.

Supervised credit in the multi-family housing program means assisting developers, nonprofit groups and others who in turn provide decent housing for many of the lowest income people. In this case, supervised credit means reaching out to prospective owners, especially non profit corporations and public bodies to help them through the application process. It also means overseeing the operations and maintenance of established projects to ensure quality living for the tenants. Efforts along these lines need to be improved in some areas. I will come back to that later.

#### **Budget requests for single family housing**

The Administration has requested \$1.8 billion for direct single family housing loans, the same level as FY 1994. This appropriation will allow 28,800 new families to own their own home. This request requires direct borrowers to contribute up to 30 percent of their adjusted income for housing.

For the cost of guaranteed single family housing loans for moderate income families who can afford to pay market interest rates but require a guarantee to obtain private sector credit, we are asking for a loan level of \$1.3 billion, an increase of \$550 million in guarantees and 8,270 units over FY 1994.

We are requesting \$35 million in housing repair loans to help fix up 7,400 homes for low-income people. We are also asking for \$25 million in repair grants for older people who cannot afford a large enough loan to repair safety and health hazards in their homes. It is hard to believe, but even today there are still people without indoor plumbing in some rural areas.

#### **Multi-family housing budget requests**

For those rural residents who do not have the resources to purchase a single-family home, FmHA finances the construction of multi-family housing and provides rental assistance to tenants. Eighty-seven percent of those who receive this assistance have incomes below 50 percent of the area median. Because of their low income, most recipients require rental assistance in addition to the interest credit assistance that is provided on the financing of rental projects.

The high cost of the program, relative to other housing programs, has made it very difficult to fund additional units of new construction, particularly in the face of efforts to reduce the Federal deficit.

At the same time, we are experiencing increased costs for the renewal of expiring rental assistance contracts. Also, there are about 90,000 out of a total of 440,000 tenants in existing projects who are rent-overburdened in the sense that they qualify for rental assistance but have not been receiving it (Attachment 1). Unless we meet these needs, there is a substantial risk of higher vacancies and defaults on existing projects.

Our budget proposes funding for the section 515 program at \$220 million in 1995, increasing rental assistance payments from \$447 million in 1994 to \$523 million in 1995, and funding rural vouchers at \$25 million. Vouchers would be used in existing 515 projects, as well as other rentable rural housing. These changes will allow us to fund 5,270 units of new construction and to provide rental assistance contracts on around 41,000 units, including 27,600 units for expiring contracts and 8,700 units for rent-overburdened tenants in existing projects.

#### **Multi-family housing problems**

I mentioned earlier the need to improve our supervised credit functions in some areas of the country. By and large we are proud of the apartment projects in rural America. The vast majority are well built, well landscaped, and well maintained. They provide a good standard of living at a modest cost.

But in the past several weeks it has come to our attention that a few unscrupulous owners are abusing the system by letting rental units run down and then selling them off.

Under the Federal tax laws, after a project is 10 years old, tax credits are available to new owners who spend at least \$3,000 per unit on repairs. The eligibility of older buildings under the tax credit may increase the relative value of these buildings and some of this increased value may inure to the old owner on the sale of the building. Further, since the new owner can obtain a tax credit for amounts spent on repairs, the old owner may have a reduced incentive to maintain the units. For this reason, increased monitoring of older buildings by Farmers Home is necessary.

Serious safety and health violations have been found in a number of FmHA funded projects in Mississippi. There are indications that there may be problems in other states. In addition, instances of apparent discrimination and Fair Housing Law violations have been uncovered.

The situation first came to light when an owner's request for a rehabilitation loan was for nearly as much as the original construction loan. Review teams from the National Office were immediately dispatched to investigate the extent of the problem.

Under Secretary Bob Nash, Associate FmHA Administrator Sharron Longino, James Gilliland the General Counsel, Charles Gillum, the Acting Inspector General and I also visited Mississippi to observe the problems first hand.

We toured two housing projects and found that conditions were just as bad as had been reported by the review teams.

We took immediate steps to overcome the problem, determine how widespread it may be and to see that it never happens again.

First, we made sure that all repairs needed to meet safety and health standards will be made (Attachment 2). In one case we have taken over management of the project and we are working through the legal system to gain control of others. In no case will the original owner benefit from any transfers.

We are working with the Office of the Inspector General to investigate all instances where fraud is suspected. Review teams are being formed in states where many problems appear to exist.

A preliminary survey was done to try to get a quick reading on how widespread the problem may be. It showed 46 projects in 17 states, in addition to Mississippi, with probable safety and health problems. Thirty-six states reported no known problems.

An Administrative Notice has been sent to all State Directors advising them of the problems found in Mississippi and instructing them to conduct a review of all multi-family housing projects in their states (Attachment 3).

The instruction includes an order that an on-site inspection must be made of all projects, with priority given to those over 5 years old that have not been personally inspected within the past year.

Two additional Administrative notices are being prepared. One will give State Directors instructions on denying transfers of ownership of any property with severe problems if the original owner would benefit. The second notice will require that State Directors investigate any possible civil rights violations and take decisive and immediate corrective actions. Our resolve to ferret out the slightest vestige of discrimination of any kind will be made quite clear.

We are reviewing all our legal and administrative authorities and remedies at our disposal to use when fraud, waste, or abuse is found. We believe some of these authorities could be expanded to include such measures as civil monetary penalties (Attachment 4).

Mr. Chairman, this is a problem that evidently has been going on for many years. That fact, however, does not reduce our concern nor underpin our commitment to solving it once and for all.

As Secretary Espy put it, "We will not allow misuse of government funds or mismanagement of government financed projects...Our preliminary survey indicated only a small percentage of problem development, yet any abuse is unacceptable and all residents deserve safe and sanitary housing."



**USDA reorganization**

As we continue to provide our regular farm and housing programs, Mr. Chairman, a major reorganization is taking place at the Department as a part of the Administration's reinventing government initiative.

Under Secretary Espy's plan, the housing programs would be included with other rural development activities in the new Rural Housing and Community Development Service (Attachment 5). That agency would come under the jurisdiction of the Under Secretary for Rural Community and Economic Development. Legislation needed to authorize some of the changes is now moving through Congress.

A great deal of thought, discussion, and planning is taking place to insure that, consistent with the Administration's emphasis on supervised credit, a strong local delivery system will be maintained although the actual configuration of local offices is still to be determined. The delivery system will be streamlined, efficient, cost effective and customer friendly with improved internal controls. It will use the latest technology available and reach out to those who need our services the most.

I want to assure you Mr. Chairman, that the Congressional mandate to provide decent and safe housing to rural residents will continue to be carried out to the fullest no matter what boxes or names are changed. The reorganization is designed to strengthen those efforts, not dilute them.

I want to emphasize the Administration's commitment to the housing programs and their delivery as strongly as I can. Yes, there will be changes in the way we do business, but this Administration's commitment to housing will remain as strong as ever.

Our commitment to you Mr. Chairman, to this Subcommittee, and to the American people is to provide decent and safe housing to those who have nowhere else to turn and to protect the integrity of all programs under our jurisdiction.

We believe that the new emphasis on closely supervised credit will go a long way toward achieving that goal.

Again, I thank you Mr. Chairman for this opportunity to share our views with you. I will be happy to respond to any questions you or other Members of the Committee may have.

FmHA OCCUPANCY SURVEY  
FISCAL YEAR 1993

## TENANTS WITH RENT OVERBURDEN - BY NUMBER AND PERCENT

STATE	TOTAL OCCUPIED UNITS	TENANTS WITH RENT OVERBURDEN	PERCENT WITH RENT OVERBURDEN
ALABAMA	13,733	4,122	30.02%
ALASKA	714	102	14.29%
ARIZONA	2,883	571	19.81%
ARKANSAS	8,621	2,639	30.61%
CALIFORNIA	19,048	4,203	22.07%
COLORADO	2,695	656	24.34%
CONNECTICUT	2,209	329	14.89%
DELAWARE	1,087	131	12.05%
FLORIDA	16,107	4,446	27.60%
GEORGIA	13,241	4,794	36.21%
HAWAII	772	13	1.68%
IDAHO	4,430	511	11.53%
ILLINOIS	10,497	2,208	21.03%
INDIANA	14,620	3,178	21.74%
IOWA	11,167	685	6.13%
KANSAS	5,910	970	16.41%
KENTUCKY	9,977	3,192	31.99%
LOUISIANA	9,816	3,470	35.35%
MAINE	7,323	1,229	16.78%
MARYLAND	4,305	1,169	27.15%
MASSACHUSETTS	2,367	185	7.82%
MICHIGAN	16,312	4,447	27.26%
MINNESOTA	12,478	3,004	24.07%
MISSISSIPPI	15,026	4,757	31.66%
MISSOURI	17,893	2,659	14.86%
MONTANA	2,436	352	14.45%
NEBRASKA	3,165	310	9.79%
NEVADA	1,656	316	19.08%
NEW HAMPSHIRE	2,620	336	12.82%
NEW JERSEY	2,960	858	28.99%
NEW MEXICO	2,992	387	12.93%
NEW YORK	11,529	2,343	20.32%
NORTH CAROLINA	19,429	4,707	24.23%
NORTH DAKOTA	3,274	203	6.20%
OHIO	13,846	2,983	21.54%
OKLAHOMA	6,481	1,958	30.21%
OREGON	5,500	848	15.42%
PENNSYLVANIA	9,329	1,846	19.79%
PUERTO RICO	3,523		.00%
RHODE ISLAND	298	14	4.70%
SOUTH CAROLINA	11,383	3,609	31.71%
SOUTH DAKOTA	6,046	746	12.34%
TENNESSEE	11,124	4,289	38.56%
TEXAS	21,791	6,114	28.06%
UTAH	1,797	351	19.53%
VERMONT	1,064	209	19.64%
VIRGIN ISLANDS	233	8	3.43%
VIRGINIA	6,965	2,117	30.39%
WASHINGTON	8,024	1,258	15.68%
WEST VIRGINIA	6,241	1,343	21.52%
WISCONSIN	10,386	1,516	14.60%
WYOMING	1,787	219	12.26%
NATIONAL TOTALS:	399,110	92,910	23.28%

## MULTI-HOUSING REVIEW FINDINGS AND PLANNED CORRECTIVE ACTIONS

Recent reviews of projects in Louisiana and Mississippi revealed a number of serious health and safety violations and an apparent discriminatory pattern in the incidence of these violations. Unsanitary facilities, hazardous defects in the building structures, lack of utilities, and insect and animal infestations were among the serious violations noted. The following items are examples of specific concerns noted:

- o Incorrect wiring in repair work.
- o Improper installation of range hoods.
- o A high incidence of refrigerators which were not working properly resulting in food spoilage hazards.
- o Stoves which were not functioning and missing dials.
- o A noticeable smell of gas from some stoves.
- o Raw sewage backing out of sewage clean out valves.
- o Tenant complaints of rats, mice, ant, termite, and roach infestation.
- o Leaking hot water tanks.
- o Water damage to carpets and floors.
- o Bathroom sinks and bathtubs with holes from rust damage.
- o Tenant complaints of having to clean their own units prior to moving into the units.
- o Non-functioning heating systems
- o Major structural defects.
- o Collapsed ceilings.
- o Large unrepaired holes in walls of occupied units.
- o Uncovered septic tanks and other dangerous ground holes.

As a result the Agency ordered immediate changes in management agents at a number of projects and is actively pursuing servicing actions aimed at making irresponsible borrowers accountable for their failure to adhere to their legal responsibilities. The Office of the Inspector General and the Office of the General Counsel are actively working with the Agency to ensure appropriate forceful servicing actions are brought to bear on those irresponsible borrowers and management agents. Potential actions include seeking demand for recovery of unauthorized assistance, acceleration, suspension, debarment, and possible civil and criminal charges. Where warranted and appropriate the Government may take action to request the court to appoint properties in temporary Government receivership.

As a result of these findings the Agency issued an emergency Administrative Notice ordering field offices to conduct immediate health and safety inspections at projects throughout the Nation. The Agency is also taking steps to make accelerated reviews in several states to identify and cure serious health and safety violations in the immediate future.

## HEALTH/SAFETY MAINTENANCE VIOLATIONS

The Farmers Home Administration defines a health/safety maintenance violation at Multi-Family Housing projects as follows:

Any maintenance condition at a project that is generating a serious health and safety concern that is not being addressed, and that could affect the short and/or long term health, well being and physical safety of the tenants and the general public. Such conditions may include, but are not limited to the following:

1. Major structural defects.
2. Malfunctioning heating and air conditioning.
3. Malfunctioning sewage systems. .
4. Malfunctioning plumbing systems.
5. Hazardous electrical wiring.
6. Extensive pest infestation.
7. Natural gas leaks.
8. Poor refrigeration.
9. Hazardous environs with broken/jagged window panes, falling ceiling and rotting floors.



Attachment #3

United States  
Department of  
Agriculture

Farmers  
Home  
Administration

Washington  
D.C.  
20250

FmHA AN No. 2969 (1965-B)  
February 28, 1994

**SUBJECT: Identification of Multi-Family Housing Projects  
With Serious Health and Safety Problems**

**TO: State Directors and District Directors**

PURPOSE/INTENDED OUTCOME:

This Administrative Notice (AN) establishes guidelines for a nationwide review of all FmHA financed rural rental housing (RRH) projects to determine the extent to which serious health and safety conditions exists.

COMPARISON WITH PREVIOUS AN:

There is no previous AN on this subject.

IMPLEMENTATION RESPONSIBILITIES:

SUMMARY OF HEALTH/SAFETY MAINTENANCE CONDITIONS FOUND:

Recently we conducted indepth reviews of RRH projects where there were reports of serious health and safety conditions that were not being addressed by owners and/or management agents. Our reviews confirmed that these conditions did exist and tenants' personal health and safety were being threatened. Multiple problems were found including:

1. Non-functioning heating systems.
2. Failed sewage systems with raw sewage on the ground and backed up into units.
3. Major structural defects.
4. Collapsed ceilings.
5. Rotted bathroom and kitchen floors.
6. Large unrepaired holes in walls of occupied units.
7. Non-functioning water heaters.
8. Hazardous electrical wirings.
9. Non-functioning refrigerators.
10. Noticeable smell of natural gas from obsolete cook stoves.
11. Extensive infestation of rats, mice, termites, roaches and ants.
12. Uncovered septic tanks and other dangerous ground holes.

EXPIRATION DATE: January 31, 1995

FILING INSTRUCTIONS:  
Preceding FmHA  
Instructions 1965-B

SERIOUS VIOLATIONS OF FAIR HOUSING AND EQUAL OPPORTUNITY REQUIREMENTS WERE IDENTIFIED INCLUDING:

1. Public spaces were not handicap accessible.
2. Handicapped accessible units were not maintained to ensure the safety and well being of the tenants.
3. Handicapped occupants of standard units were not considered for reasonable accommodations to meet their needs.
4. Projects were not maintained in compliance with the Fair Housing Law.
5. Tenants were subjected to retaliatory actions such as eviction for complaining about the condition of their units and requesting repairs or replacement of defective components.

These type of conditions cannot and will not be tolerated.

The above is not an inclusive list, only examples of the findings. Each State Office may have additional items based on findings and knowledge of their particular portfolio. Any questions about whether an item is considered as a safety/health hazard should be referred to the MHSPM Division for guidance.

The above examples are intended to distinguish conditions beyond our normal servicing efforts to control deferred maintenance that is part of our routine servicing efforts.

When serious health and safety conditions are found, we expect immediate action to be taken to document the findings and have the owner cure the problem. If the owner does not take immediate action after being confronted with the evidence of the serious health and safety violations, aggressive legal action needs to be initiated. We can assist you and your Office of General Counsel with guidance in obtaining Federal Court Action to gain legal control of the project so correction can be made.

ACTION NEEDED:

While we know that the vast majority of FmHA financed RRH projects are being maintained and properly serviced, it is imperative that we identify any project where serious health and safety violations exist so that immediate action can be taken to protect tenants. Therefore, we are initiating actions to conduct a health and safety inspection of 100 percent of FmHA financed RRH projects by June 10, 1994. State Directors should consider this effort their top priority and use whatever staff resources (State, District and County employees) to complete these inspections.

State Directors must certify that actions have been taken to determine the condition of all RRR projects related to tenant health and safety issues. To reach this determination:

1. All projects 5 years old or older that have not had a supervisory visit that included an on-site inspection within the last 12 months must be visited.
2. Visits to projects under 5 years old and those visited within the last 12 months are optional. However, the last site inspection forms should be reviewed and a determination made as to whether a reinspection is warranted.
3. Attachment A "MFH Project Health and Safety Survey" must be completed on all projects over 5 years old based on the inspection or review. A survey is not needed on projects under 5 years.

Attachment B, HUD Form 9822, "Physical Inspection Report" or comparable form should be used by employees to document the results of their inspection. Time and resources will not permit a full supervisory review of each project. Our objective is to identify serious health and safety problems, and seriously deferred maintenance problems that may lead to serious health and safety problems. Any onsite review should include interior inspections of 20 percent of the living units in each project selected on a random basis and interviews with tenants in units where serious problems are found. Documentation must include pictures of identified safety and health issues and documentation of tenant interviews.

This is a massive effort involving verification of the status of over 16,700 projects and 440,000 living units. When the statewide survey has been completed, the State Director should transmit the individual survey forms only to the National Office with a cover letter certifying that the required inspections have been made and reflects the conditions in his/her state. The Physical Inspection reports should be retained for future reference. The cover letter should also indicate how many projects under 5 years old that were not reported on.

If all reviews are not completed by May 1, 1994, provide a status report on the progress made to date and the actions planned to complete the review by the June 10th deadline.

*M. V. Dunn*  
MICHAEL V. DUNN  
Administrator

Attachments

Sent by Fax to State Directors on 3-2-04 at 9:30 by GSS. State Directors should notify other personnel as appropriate.





PART II

1. Inspector's Name \_\_\_\_\_ Date Inspected \_\_\_\_\_

2. Number of Units Inspected \_\_\_\_\_.

BASED ON PHYSICAL INSPECTION USING ATTACHED FORM HUD-9822, "PHYSICAL INSPECTION REPORT", OR SIMILAR FORM, WERE ANY SERIOUS HEALTH AND SAFETY VIOLATIONS IDENTIFIED. IF YES, PLEASE LIST. MAKE DESCRIPTION AS BRIEF AND CONCISE AS POSSIBLE.

3. Were any problems noted that posed no immediate danger, but could ultimately develop into a serious health and safety problem? If so, please list:

## Physical Inspection Report

Note: This package contains two sets of multi-part forms - a set for page one and a set for page two. Be sure to separate the two sets before you begin the forms.

U.S. Department of Housing  
and Urban Development  
Office of Housing  
Federal Housing Commissioner

OMB No. 2502-0069

Inspection Date	Date Report Made	Report Prepared By
		<input type="checkbox"/> HUD <input type="checkbox"/> Mortgagee (Enter Company Name)

## Part A: Basic Data

1. Project Name	2. Owner's Name	3. Date: (Mo/Yr)
3. Agent's Name	4. Resident Manager's Name	5. Date: (Mo/Yr)
6. FHA Number	7. Mortgage No.	8. No. of Units
		9. Last Quarter Average
		10. Monthly Turnover
9. Name and Title of Owner Representative Accompanying you on inspection		11. Days Vacant/Unit
		12. Unit Ready Time

Part B: Physical Condition. Indicate the physical condition of each item. If maintenance is needed, describe the problem/need in Part E of this report. Mortgagees need not supply cost estimates. HUD staff need give cost estimates only when such estimates are required by other instructions (e.g. we or flexible subsidy instructions).

	Maintenance Needed (Y/N)	Urgency (H/M/L)	On Prior Report (Y/N)	Estimated Cost		Maintenance Needed (Y/N)	Urgency (H/M/L)	On Prior Report (Y/N)	Estimated Cost
<b>Exterior Items Inspected</b>					<b>Interior Items Inspected</b>				
1. Exterior Walls and Foundations					23. Floor carpets, tile				
2. Roofs, flashing, vents					24. Stairs, walkways, community spaces				
3. Gutters, downspouts, splashblocks					25. Cabinets, doors, closets, hardware				
4. Drives, parking lots, paving, curbs					26. Painting				
5. Walks, steps, guardrails					27. Curtains and shades				
6. Fences, walls, gates					28. Refrigerators and ranges				
7. Porches, balconies, fire escapes					29. Garbage disposal and exhaust fans				
8. Doors, windows, screens					30. Compactors and incinerators				
9. Garage and carports					31. Electrical fixtures and systems				
10. Lawns and plantings					32. Plumbing fixtures and systems				
11. Sprinkler and drainage system					33. Heating and air conditioning				
12. Exterior lighting					34. Hot water system, boiler room				
13. Exterior painting					35.				
14. Underground gas, water, sewage					<b>Miscellaneous Items Inspected</b>				
15. Security systems					36. Benches, play area and equipment				
16.					37. Laundry rooms				
<b>Energy Efficiency Items Inspected</b>					38. Storage, utility buildings				
17. Insulation					39. Elevators				
18. Caulking and weatherstripping					40. Project signs and office				
19. Storm doors and windows					41. Swimming pools				
20. Water saver devices					42. Exterminating				
21.					43. Fire extinguishers				
22.					44.				

## Part C: Miscellaneous Observations. Answer each question in Part E, describe any problem areas, corrective actions needed, or elaborate on these answers.

1a. Surrounding neighborhood is	<input type="checkbox"/> Depressed	<input type="checkbox"/> Average	<input type="checkbox"/> Prosperous	Yes	No	N A
b. This condition is expected to	<input type="checkbox"/> Improve	<input type="checkbox"/> Stay Same	<input type="checkbox"/> Decline			
2. Are project signs and access adequate?						
3a. Is preventative maintenance adequate and timely?						
b. Are any changes in maintenance procedures needed?						
4a. Insurance, loss drafts, or replacement reserve funds were released for repairs. Have these repairs been completed?						
b. Are any significant work problems being solved?						
5a. Have all repairs required by HUD or the mortgagee been completed?	<input type="checkbox"/>					
b. If no, is repair work progressing on schedule?	<input type="checkbox"/>					
6a. Have any major physical improvements been made during the last year?	<input type="checkbox"/>					
b. Are any major physical improvements planned?	<input type="checkbox"/>					
c. Are there any other significant physical problems?	<input type="checkbox"/>					

Overall Rating:

☐ Superior ☐ Satisfactory ☐ Below Average ☐ Unsatisfactory ☐ Superior ☐ Satisfactory ☐ Below Average ☐ Unsatisfactory

**IMPORTANT:** In Part E, explain the basis for any below average or unsatisfactory rating.

**Part E: Comments.** Cross reference each comment to a line item in Part B, C, or D of this report. Attach additional sheets, if needed.

Part  
Line  
Reference

Date  
Closed

#### Part F: Signatures

Inspection made by \_\_\_\_\_ Inspection accepted by \_\_\_\_\_

Signature \_\_\_\_\_ Signature \_\_\_\_\_ Signature \_\_\_\_\_

Public reporting burden for this collection of information is estimated to average 1 hour per response, including the time for reviewing existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington Headquarters Office of Management and Information Policies and Systems, U.S. Department of Housing and Urban Development, Washington, D.C. 20540.

H.U.D. 467

## FURTHER LEGAL AND ADMINISTRATIVE SERVICING REMEDIES

While foreclosure provides FmHA with a means with separating an individual borrower from a Multiple Family Housing (MFH) loan and project, FmHA has additional administrative and legal options to protect the program from individuals and organizations that abuse the MFH program. Briefly these options include:

### CRIMINAL AND CIVIL LEGAL ACTIONS

The Department of Justice (DOJ), typically in conjunction with USDA Office of Inspector General (OIG) investigators, may prosecute program participants found to have violated federal law. Twenty seven legal actions against MFH program participants have been successfully pursued in the last five years.

Examples of recent successful prosecutions include cases of developers who falsified financial documents, converted project funds for personal use, or participated in a conspiracy to defraud the Federal Government. DOJ is pursuing additional cases at this time.

### SUSPENSION and DEBARMENT

These actions, taken in accordance with FmHA Instruction 1940-M, allow the Agency to take steps to prevent individuals or organizations who have abused the MFH program from participating in any Federal program for a specified number of years. Suspension and debarment prevents irresponsible individuals from obtaining additional federal assistance or contracts. Debarment may be quickly obtained after a successful legal action and typically is pursued in conjunction with OIG investigations. Debarment can also be pursued without concurrent legal action.

Debarment has been successfully obtained in over a dozen cases including instances where borrowers have removed reserve account funds, mis-used project funds or falsified financial reports. The Agency is currently pursuing suspension and debarment for fourteen additional borrowers for similar offences.

Key to both of the servicing options outlined above is active participation by USDA OIG investigators to uncover credible evidence of fraud or abuse and DOJ resources to prosecute and convict offenders. Over the last five years, OIG has conducted 89 investigations into the MFH program.



## FURTHER DISCUSSION

FmHA has no investigative or prosecution authority. FmHA's regulations require suspected unauthorized use of project funds be reported to the USDA OIG and the USDA Office of General Counsel. These USDA offices have the responsibility to investigate and pursue legal actions. The DOJ decides which cases to pursue through the legal system.

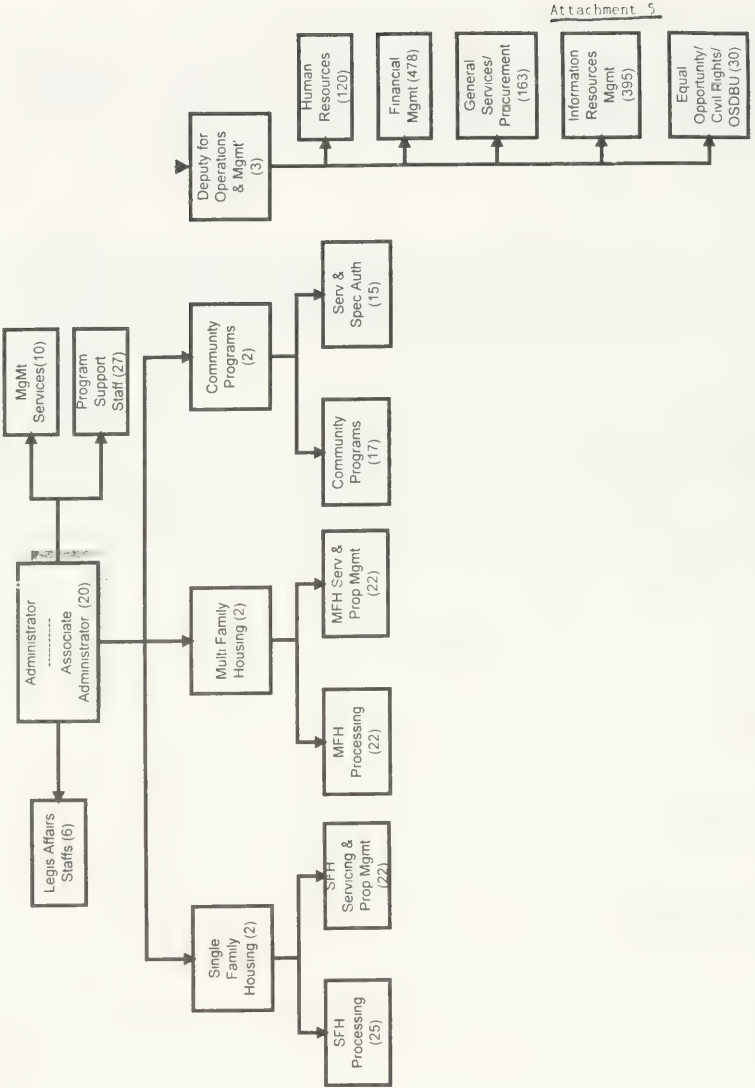
## FUTURE ACTIONS

We have made a commitment to pursue legislation to establish civil monetary penalties to help bring borrowers into compliance while reducing the need to take other legal and administrative steps. We hope to establish a system similar to that recently enacted by HUD which will allow us to assess an escalating series of penalties for non-compliance.

In addition, we would like to establish a better system for investigating fraud, waste and abuse. While OIG must support the entire USDA, we find that at times our compliance issues require additional support. Options being explored include developing a better internal FmHA workout team. This team would be responsible for establishing a closer partnership with OIG to utilize OIG's investigative authorities and a stronger partnership with DOJ to assure that instances of program abuse receive sufficient attention in the legal system.

## Rural Housing &amp; Community Development Service

March 8, 1994



Questions for Mike Dunn from Chairman Gonzalez  
March 10, 1994

1. Under current policy, low and very low income borrowers pay 20 percent for housing excluding utilities and maintenance. The budget request increases the minimum payment for section 502 borrowers from 20 percent to 30 percent of income for principal, interest, taxes, and insurance. DOES THIS INCREASE ONLY APPLY TO PROSPECTIVE BORROWERS OR ALL CURRENT BORROWERS?

IF IT APPLIES TO CURRENT BORROWERS, WOULDN'T THE LIKELIHOOD OF DEFAULTS INCREASE DRAMATICALLY?

2. Section 502 loans are limited to low income families with incomes below 80 percent of median and 40 percent of section 502 funds are limited to families with incomes below 50 percent of median.

WHAT IMPACT WOULD THIS INCREASE IN BORROWER'S SHARE HAVE ON FmHA'S ABILITY TO MEET THE STATUTORY REQUIREMENTS OF PROVIDING LOANS TO VERY LOW INCOME BORROWERS?

3. IF UTILITIES AND MAINTENANCE ARE INCLUDED IN SHELTER COSTS, CAN YOU TELL THE SUBCOMMITTEE WHAT PERCENTAGE OF INCOME FmHA BORROWERS WOULD HAVE TO PAY TO MEET ALL HOUSING COSTS. WOULDN'T THAT PERCENTAGE BE PROHIBITIVE FOR VERY LOW INCOME RESIDENTS THAT FmHA CURRENTLY SERVES?

Please provide for the Subcommittee examples which show the impact of this increase on payments by currently eligible section 502 families. Please be sure to show the current payments, including utility and maintenance costs, and the change in their relative to income, as a result of the budget request requirement.

4. WHAT IMPACT WOULD THE REDUCED SECTION 515 BUDGET REQUEST HAVE ON THE NUMBER OF UNITS YOU WOULD BE ABLE TO FINANCE?

HAS THE FmHA EXPERIENCED A DECREASE IN DEMAND FOR NEW SECTION 515 LOANS?

HAS THERE BEEN A DECREASE IN THE DEMAND FOR RENTAL HOUSING IN RURAL AREAS?

CAN YOU TELL ME WHAT FmHA REQUESTED FOR THE SECTION 515 BUDGET AUTHORITY? WHAT ABOUT THE DEPARTMENT OF AGRICULTURE'S REQUEST TO THE PRESIDENT? FINALLY, WHAT WAS THE OMB PASSBACK?

5. I am also disturbed by the emphasis on loans over grants for home repairs. ISN'T THE DEMAND FOR GRANTS OVERWHELMING IN MOST STATES? CAN YOU COMMENT FURTHER?

6. In the Housing and Community Development Act of 1992, HUD was

authorized to provide assistance for homeless in rural areas. In Cranston Gonzalez National Affordable Housing Act in 1990, FmHA was authorized to implement a program for rural homeless and migrants.

HAS FmHA IMPLEMENTED THE 1990 AUTHORIZED PROGRAM? HAS THERE BEEN ANY PROGRESS? WOULD FmHA BE INTERESTED IN AND CAPABLE OF IMPLEMENTING THE AUTHORITY THAT HAS BEEN PROVIDED TO HUD. SHOULD FmHA BECOME A PROVIDER OF SUCH ASSISTANCE FOR THE HOMELESS IN LIEU OF OR IN ADDITION TO HUD?

7. I want to ask you about the recent findings of severe health and safety violations in the 46 projects. I couldn't agree with you more that these projects represent a small minority of bad actors and should not be seen as an indictment of the section 515 program and that FmHA has taken speedy corrective action. HOWEVER, I AM DEEPLY DISTRESSED ABOUT THE APPARENT EVIDENCE THAT THESE VIOLATIONS MAY EXHIBIT A PATTERN OF DISCRIMINATION AND FAIR HOUSING ACT VIOLATIONS. CAN YOU COMMENT FURTHER ON THIS?

8. H.R. 3838 proposes a delegated processing demonstration for nonprofit organizations in undeserved areas. CAN YOU COMMENT ON THIS PROVISION? SHOULD THE CONGRESS CONSIDER A DELEGATED SERVICING DEMONSTRATION FOR DELINQUENT BORROWERS WITH CAREFUL AGENCY OVERSIGHT? WON'T THIS MESH WITH YOUR EMPHASIS OF SUPERVISED CREDIT?

9. In H.R. 3838 we have included a provision that essentially converts the voucher program more clearly in the direction of servicing rental assistance for troubled section 515 projects. This seems to agree with your testimony. CAN YOU COMMENT FURTHER ON THIS PROVISION?

10. In H.R. 3838, there are a number of changes in the prepayment and preservation provisions in an effort to update and clarify the provisions. I am still concerned about one provision in the 1992 Act that to my knowledge has not been implemented. HAS THE OFFICE OF PRESERVATION BEEN ESTABLISHED? ARE THERE PLANS TO ESTABLISH THIS OFFICE. IF SO, WHEN ? IF NOT, WHY NOT?



Responses from Mr. Dunn to  
Chairman Gonzalez' Questions

1. Question: Under current policy, low- and very low-income borrowers pay 20 percent for housing excluding utilities and maintenance. The budget request increases the minimum payment for section 502 borrowers from 20 percent to 30 percent of income for principal, interest, taxes, and insurance. DOES THIS INCREASE ONLY APPLY TO PROSPECTIVE BORROWERS OR ALL CURRENT BORROWERS?

Answer: This increase applies only to prospective borrowers.

2. Question: Section 502 loans are limited to low-income families with incomes below 80 percent of median and 40 percent of section 502 funds are limited to families with incomes below 50 percent of median.

WHAT IMPACT WOULD THIS INCREASE IN BORROWER'S SHARE HAVE ON FmHA'S ABILITY TO MEET THE STATUTORY REQUIREMENTS OF PROVIDING LOANS TO VERY LOW-INCOME BORROWERS?

Answer: We anticipate an average housing expense increase of \$150 per month for the low-income borrowers and an increase of \$75 per month for the very low-income borrowers and this would likely increase the difficulty in the use of the single family rural housing funds.

3a. Question: IF UTILITIES AND MAINTENANCE ARE INCLUDED IN SHELTER COSTS, CAN YOU TELL THE SUBCOMMITTEE WHAT PERCENTAGE OF INCOME FmHA BORROWERS WOULD HAVE TO PAY TO MEET ALL HOUSING COSTS. WOULDN'T THAT PERCENTAGE BE PROHIBITIVE FOR VERY LOW-INCOME RESIDENTS THAT FmHA CURRENTLY SERVES?

Answer: Currently the Section 502 borrowers pay 33 percent of their income for principal, interest, taxes, insurance (PITI), utilities, and maintenance. Under the proposed system the Section 502 borrowers would pay 41 percent of their income for these expenses. This increase in housing expenses would have a significant impact on the new Section 502 borrowers.

3b. Question: Please provide for the Subcommittee examples which show the impact of this increase on payments by currently eligible section 502 families. Please be sure to show the current payments, including utility and maintenance costs, and the change in their relative to income, as a result of the budget request requirement.

Answer: As you requested, we have included examples from three states (California, Georgia, and Maryland) assuming that borrowers would be required to pay 30 percent of their income for PITI including utilities and maintenance. These borrowers represent a range of different median incomes in each of the states.

#### 30 PERCENT INCOME CONTRIBUTION

Borrowers' Percent Median Income	Loan Amount	Current Monthly PITI Plus Utilities and Maintenance	Proposed Monthly PITI Plus Utilities and Maintenance	Percent Increase
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##### CALIFORNIA

39	\$ 74,000	\$469	\$598	28
41	75,900	484	567	17
59	76,000	472	542	15
67	105,000	675	898	33

##### GEORGIA

37	58,200	389	544	40
46	56,200	386	531	37
55	45,570	319	428	34
61	49,000	423	581	37

##### MARYLAND

37	59,500	353	435	23
46	56,200	373	499	34
55	96,900	626	695	11
65	77,492	595	808	36

4. What impact would the reduced Section 515 budget request have on the number of units you would be able to finance?

In FY 93, FmHA produced approximately 13,500 new Section 515 units throughout rural America. Our proposed FY 95 budget would finance about 5,000 new units of rental housing. A large increase in funds was requested for Rental Assistance (Section 521) so that tenants in our existing complexes will no longer be rent overburdened and that our vacant units can be made affordable. In addition, \$25

million was requested for vouchers which will provide approximately 1,000 families with the ability to locate affordable housing. We will use the dollars allocated by Congress to address the most serious needs in rural areas and to protect the Government's investment in the existing FmHA-financed complexes. We will attempt to use the limited funds more wisely by evaluating the cost of complexes more closely.

Has FmHA experienced a decrease in demand for new Section 515 loans?

The demand for Section 515 assistance continues to be strong. Rural America, like the rest of the country, is still in need of affordable housing. We plan to meet this demand through a balanced rental housing program emphasizing affordable rental units.

Has there been a decrease in the demand for rental housing in rural areas?

There continues to be a need for new rental housing in rural areas.

Can you tell me what FmHA requested for the Section 515 budget authority?

The request for the Section 515 program level was for \$562,665,000.

What about the Department of Agriculture's request to the President?

The request for the Section 515 program level was for \$440 million.

Finally, what was the OMB passback?

The passback was \$220 million.

5. Question: I am also disturbed by the emphasis on loans over grants for home repairs. Isn't the demand for grants overwhelming in most states? Can you comment further?

Answer: Mr. Chairman, our appropriation levels for FY 94 for grants and loans are \$25 million and \$35 million, respectively. This is double the appropriation for Section 504 grants and triple the appropriation for Section 504 loans that we had previously for 1993. We propose to maintain these same levels. We recognize the large demand for grants for very low-income senior citizens; however, a Section 504 loan is amortized at a 1 percent interest rate and in most cases, for 20 years. Therefore, we are confident that loans are made without creating an economic hardship for the borrowers. Further, grant use is restricted to persons 62 years of age and older. Thus, the loan program permits us to serve other very low-income persons that need to make repairs to their dwellings.

6. Question: What is the relative size of that inventory of homelessness in the rural areas, fully defined as rural. And what is the inventory of vacant housing and its characteristics.

Answer: The number of single family houses (SFH) in FmHA inventory totaled 3,125 as of March 31, 1994. These houses are modest in size design and cost, generally with between 950 and 1100 square feet of livable floor space. 2,490 of these are "program" SFH properties, suitable to be repaired and sold to eligible FmHA SFH loan applicants. The remainder are "nonprogram" properties which are not suitable for sale to an eligible FmHA SFH loan applicant because of such things as high utility costs or structural problems which cannot be economically repaired to bring the property to program condition. All 2,490 program properties are available, or being made available, for nonprogram properties and underutilized program properties which are available for lease for transitional housing for the homeless. FmHA's loan, lease and inventory sales programs directly address housing the homeless or substantially preventing further homelessness.

7. Question: I want to ask you about the recent findings of severe health and safety violations in the 46 projects. I couldn't agree with you more that these projects represent a small minority of bad actors and should not be seen as an indictment of the section 515 program and that FmHA has taken speedy corrective action. HOWEVER, I AM DEEPLY DISTRESSED ABOUT THE APPARENT EVIDENCE THAT THESE VIOLATION MAY EXHIBIT A PATTERN OF DISCRIMINATION AND FAIR HOUSING ACT VIOLATIONS. CAN YOU COMMENT FURTHER ON THIS?

Answer: Our preliminary findings have produced some evidence of discrimination and Fair Housing Act violations toward tenants. We are currently in the process of putting together the documentation to support our findings. Additionally, we are working very closely with our Office of General Counsel and the OIG to determine the appropriate legal actions to take against the



violators.

8. Question: H.R. 3838 proposes a delegated processing demonstration for nonprofit organizations in underserved areas. CAN YOU COMMENT ON THIS PROVISION? SHOULD THE CONGRESS CONSIDER A DELEGATED SERVICING DEMONSTRATION FOR DELINQUENT BORROWERS WITH CAREFUL AGENCY OVERSIGHT? WON'T THIS MESH WITH THE EMPHASIS OF SUPERVISED CREDIT?

Answer: We are supportive of this provision as we believe this will provide the Agency with additional resources which will better assist our clients in the more remote areas. We have interpreted Section 512 of H.R. 3838 to provide for servicing activities in the demonstration; therefore, we do not believe an additional Servicing Demonstration would be needed.

9. Question: In H.R. 3838 we have included a provision that essentially converts the voucher program more clearly in the direction of servicing rental assistance for troubled Section 515 projects. This seems to agree with your testimony. CAN YOU COMMENT FURTHER ON THIS PROVISION?

Answer: The program would operate much like the HUD housing voucher program, except that the grantees are not limited to being public housing agencies, and the term of the agreement with the public or private nonprofit we fund is limited to 5 years. Therefore, persons or families assisted would have rental assistance for up to five years. The tenants would pay up to 30 percent of their income for rent and utilities. The voucher would cover the difference between the tenant's payment and the actual rent, capping at the fair market rent determined locally with FmHA concurrence.

10. Question: In H.R. 3838, there are a number of changes in the prepayment and preservation provisions in an effort to update and clarify the provisions. I am still concerned about one provision in the 1992 Act that to my knowledge has not been implemented. HAS THE OFFICE OF PRESERVATION BEEN ESTABLISHED. ARE THERE PLANS TO ESTABLISH THIS OFFICE. IF SO, WHEN? IF NOT, WHY NOT?

Answer: No, the Office of Preservation has not been established. Yes, there are plans to assign this responsibility to an individual in our Multi-Family Housing Servicing and Property Management Division as a collateral duty.

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United States General Accounting Office

GAO

Testimony

Before the Subcommittee on Housing and Community  
Development  
Committee on Banking, Finance and Urban Affairs,  
House of Representatives

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For Release on Delivery  
Expected at  
10 a.m., EST  
Thursday,  
March 10, 1994

## HOUSING ISSUES

### The Housing and Community Development Act of 1994

Statement of Judy A. England-Joseph, Director, Housing and  
Community Development Issues, Resources, Community, and  
Economic Development Division



Mr. Chairman and Members of the Committee, thank you for giving me the opportunity to be here today to discuss H.R. 3838, the Housing and Community Development Act of 1994. As agreed with your office, I will focus my comments on aspects of the bill on which GAO has either completed or is in the process of completing work. Some of this work has been carried out at your request, Mr. Chairman, and some has been performed for other requesters who have given us permission to discuss it with you today. Because this statement is based, in part, on ongoing work, some of the results we present are preliminary.

The aspects of the bill that I will discuss relate to (1) default prevention for Community Development Block Grant loans; (2) the structure of and funding for the McKinney Act's homeless assistance programs; (3) the merger of the Department of Housing and Urban Development's (HUD) section 8 tenant-based certificate and voucher assistance programs; (4) the reamortization and refinancing of the Farmers Home Administration's (FmHA) rural housing loans; and (5) the disposition and loan management of HUD's multifamily assets.

In summary, H.R. 3838 addresses a number of problems that we have identified in our work. For example, it contains provisions that could reduce the potential for defaults or foreclosures in three government-sponsored loan programs--HUD's insured multifamily loans, HUD-guaranteed Community Development Block Grant loans, and FmHA's rural housing loans. It would improve HUD's efficiency in providing assistance to lower-income households by merging the HUD tenant-based certificate and voucher assistance programs. It also authorizes increased funding for homelessness assistance programs. This funding could help fill the gap between need and the programs' capacity to help the homeless.

Our work, however, has also identified several factors that the Committee should be mindful of as it considers this

legislation. One important issue that affects both the proposed merger of the certificate and voucher assistance programs and the homelessness assistance programs is how the programs can best be structured to meet the needs of program recipients while minimizing administrative burdens on HUD staff and program recipients. Furthermore, our work has pointed out the usefulness of congressional monitoring of both the Community Development Block Grant and HUD's multifamily loan programs to ensure that continued delinquencies, defaults, and foreclosures do not threaten the programs' effectiveness.

I would now like to discuss our work in each the five areas I mentioned and comment on how H.R. 3838 would address the problems we found.

#### COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM

Mr. Chairman, I would like to begin by discussing the proposal in H.R. 3838 to establish new grants to be used in connection with section 108 loan guarantees under the Community Development Block Grant (CDBG) program. We believe these new grants, together with improved monitoring, should help lessen the incidence of defaults on these guaranteed loans.

As you know, several weeks ago GAO reported on the CDBG program, as required by the Housing and Community Development Act of 1992 (P.L. 102-550).<sup>1</sup> One thing we found is that the section 108 loan guarantees are important to local communities' funding of economic development activities, particularly for larger projects that require more funds than are normally available through CDBG

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<sup>1</sup>Community Development: Block Grant Economic Development Activities Reflect Local Priorities (GAO/RCED-94-108, Feb. 17, 1994).



grants.<sup>2</sup> Unlike the CDBG grants, section 108 loan guarantees tend to be used by communities more for economic development than for other purposes. For example, communities committed about 51 percent of their section 108 loans to economic development in fiscal year 1992, while entitlement communities (generally cities and urban counties) have consistently spent 10 to 14 percent of their CDBG grants for economic development each year since 1984.

As you are well aware, Mr. Chairman, defaults on CDBG loans have persistently been identified as a problem by HUD's Inspector General. While no established acceptable default rate has been established for CDBG economic assistance loans, a higher than normal rate might be expected because such loans are usually made to businesses that cannot obtain private financing and that often are located in distressed areas that have high crime rates. Most of the Inspector General's findings have involved loans that communities make using CDBG grant funds, but notable defaults have occurred on loans guaranteed by HUD under the section 108 program.

H.R. 3838 could help reduce the likelihood of defaults on these loans by authorizing HUD to use unspent funds recovered from the Urban Development Action Grant program to provide additional grants in conjunction with the section 108 loan guarantee program. These additional grants would likely help ensure the financial soundness of projects benefitting from the section 108 loans. The grants may also encourage more communities to use the loans and thereby result in more widespread use of the CDBG program for economic development activities. To date, this use has been concentrated among a limited number of grantees. However, because section 108 loans tend to involve larger amounts and the local

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<sup>2</sup>Communities and states that receive CDBG grants can, under section 108 of the Housing and Community Development Act of 1974, apply for additional financing in the form of loans. Under this program, HUD guarantees notes issued by grantees for up to five times their current year's CDBG grant.

communities are responsible for repaying the guaranteed loan by using future CDBG allocations, defaults can have a seriously detrimental effect on the grantees' CDBG activities. We therefore recommended that HUD assist the Congress in monitoring the seriousness of the default situation by starting to include in its annual CDBG report to the Congress data on delinquencies and defaults that it has begun to collect from grantees.

Our report also noted that CDBG-funded economic development activities, including section 108-funded projects, can play a significant role in helping communities carry out their economic revitalization strategies. However, without a comprehensive set of performance measurements, it is difficult to evaluate how effective these activities are. Our report identified numerous measurements that a community can use to evaluate local economic development initiatives. These indicators of effectiveness--which should be community specific--could measure one or more of the following outcomes: (1) the number, cost, targeted population, and types of jobs funded; (2) the increases in the community's tax base; (3) the leveraging of public and private funds relative to the CDBG investment; (4) the level of loan defaults; (5) the creation of needed essential services and facilities; and (6) the types and sizes of businesses assisted. In addition, although methodologically difficult, indicators that attempt to measure CDBG's contribution to an overall effort to revitalize a neighborhood could be formulated. Regardless of what performance measurements are used, it is important that they reflect the overall goal of the CDBG program, which is principally to benefit low- and moderate-income persons. Our report did not recommend that HUD establish performance measurements because we believe that such measurements can best be formulated by local grantees. However, we noted that HUD has the opportunity to help grantees define the measurements that would serve them best.

PROGRAMS UNDER THE STEWART B. MCKINNEY HOMELESS ASSISTANCE ACT

Another matter that I would like to discuss concerns provisions of H.R. 3838 that would reauthorize and increase funding for the McKinney Act's homelessness assistance programs. Within the next few weeks, GAO will be publishing the results of a comprehensive study on these programs that was requested by the Subcommittee on Housing and Urban Affairs of the Senate Committee on Banking, Housing, and Urban Affairs. This study assesses the local impact of McKinney Act programs via comprehensive case studies in the cities of Baltimore, St. Louis, San Antonio, and Seattle. The preliminary results from this work indicate that homelessness continues to be a serious problem that requires additional federal resources. Our work also developed information that the Committee may find useful in evaluating the differences between H.R. 3838 and proposals made in the President's budget.

Extensive input from a wide range of those involved in assisting the homeless (federal, state, and local government officials; nonprofit service providers; and national researchers) led us to the inevitable conclusion that the need greatly outstrips the current capacity of available assistance programs. Local experts expect homelessness to remain a serious problem and are looking to the McKinney programs for additional resources to help them fill service gaps, particularly in the areas of prevention, longer-term housing, and comprehensive services to help the homeless achieve independent living. Both H.R. 3838 and the President's budget call for substantial increases in McKinney program funding, which should help. However, these experts were quick to point out that the McKinney programs should not be expected to make up for serious shortcomings in mainstream assistance programs for low-income people, which are supposed to form the "safety net" against becoming homeless. They believe the mainstream programs also must be expanded and made more accessible

to the homeless to significantly improve the current situation. In this regard, we noted that the President's budget proposes to create 15,000 5-year rental assistance certificates to move homeless families from temporary shelters to permanent rental housing.

Some of the local service providers, especially those participating in more than one McKinney Act program at the same time, have found funding application and record-keeping requirements burdensome and to some extent duplicative. Some providers believe that the McKinney programs should be further consolidated to streamline their administration--a position endorsed by HUD and encompassed in the "continuum of care" approach proposed in the President's budget. This approach would fold many of HUD's McKinney Act programs into a comprehensive formula grant program with the intent of giving communities greater flexibility to focus McKinney program resources on their particular needs. Some experts, however, maintain that the current mix of categorical programs (as continued in H.R. 3838) better targets services to the varied needs of the homeless and precludes some needs getting lost in competing demands for scarce resources. Some experts also believe a formula grant approach might merely spread limited resources too thin to be effective. Another potential problem is the difficulty of devising an allocation formula that reflects relative need. As you know, HUD was unable to establish such a formula in response to the requirements in the 1990 McKinney amendments act.

Our forthcoming report also notes the possible negative impacts related to the withdrawal of appropriations in fiscal year 1994 for the Interagency Council on the Homeless. While HUD is providing funds to a successor organization formed as a working group of the Domestic Policy Council, there is some question whether this group will be able to sustain the Interagency Council's former level of communication of information to the



homelessness assistance community across the nation. This is a function we believe will become increasingly important over the next few years as many McKinney program evaluations are completed and yield information on what service strategies work best. We are pleased to see that H.R. 3838 reauthorizes funds for the Council.

PROPOSED MERGER OF THE SECTION 8  
CERTIFICATE AND VOUCHER PROGRAMS

Mr. Chairman, I would like to turn now to the proposed merger of the section 8 certificate and voucher programs contained in H.R. 3838. In 1989, we issued a report<sup>3</sup> that advocated merging these two assistance programs and we continue to support such action. Moreover, others, including national organizations representing owners and housing agencies, have also urged that the two programs be unified, as has the administration. However, Mr. Chairman, several key issues associated with a merger would need to be addressed, not the least of which is the capacity of HUD and the housing agencies to effectively carry it out.

A merger of the certificate and voucher programs should benefit HUD, housing agencies, private owners, and the approximately 1.3 million households assisted through these two programs. Under a merger, HUD and the housing agencies would have one program to administer rather than two and should have fewer administrative record-keeping requirements. In addition, private owners should no longer have to meet different requirements for renters receiving assistance through different programs. Finally, similar assisted households should be treated similarly in the housing subsidies they receive and their choice of housing under a merged program.

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<sup>3</sup>Rental Housing: Housing Vouchers Cost More Than Certificates but Offer Added Benefits (GAO/RCED-89-20, Feb. 16, 1989).

While there is widespread support for merging the two programs, there is less agreement on the provisions that a merged program should embody. We believe that there are five major issues that must be resolved in merging the programs: (1) the bases on which the housing subsidy is calculated (fair market rents or the payment standard approach<sup>4</sup>), (2) whether to include a shopper's incentive,<sup>5</sup> (3) whether to provide budget authority for contract amendments when actual subsidy costs are greater than anticipated, (4) how to minimize the impact on HUD and housing agencies of a transition to a merged program, and (5) ensuring that HUD has the organizational capacity to carry out a merger. While I am prepared to answer your questions concerning any of these issues, I would like to focus my remarks today on the latter two, which have had little public discussion to date.

#### Effects of a Transition to a Merged Program

If the Congress decides to merge the two programs, whatever approach it adopts will require considerable effort on the part of HUD and the housing agencies. For example, the Congress could dissolve the certificate and voucher programs simultaneously and require HUD to provide housing assistance for all households under the requirements of a new "merged" program. This approach would likely require a considerable short-term effort by HUD field offices to merge about 30,000 existing contracts with over 2,500 housing agencies and educate these agencies about new program requirements. Also, the housing agencies would have to make considerable efforts to (1) educate tens of thousands of housing

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<sup>4</sup>A subsidy benchmark, set by public housing agencies, which may not be less than 80 percent of the fair market rent for the applicable housing market.

<sup>5</sup>A provision which allows assisted households to contribute less than 30 percent of their income toward rent if they successfully "shop for" acceptable housing that rents for less than the payment standard.

owners and gain their acceptance of new program rules, (2) educate about 1.3 million assisted households about new program requirements, and (3) establish unified record-keeping and accounting systems.

Alternatively, if the Congress adopted a gradual merger approach as existing housing contracts expire (as envisioned in H.R. 3838), HUD would be required to run three separate programs (the certificate, the voucher, and the merged programs) until existing contracts expired, around 2003. This approach would exacerbate the difficulties involved in administering multiple programs for both HUD and the housing agencies, since it would entail three--instead of two--sets of program requirements. However, it would limit the effort by HUD and the housing agencies at the outset, since it is a gradual approach.

#### Ensuring Organizational Capability

HUD's organizational structure has been criticized for fragmentation, lack of accountability, and overlapping authority. Because a merger would likely require considerable effort by HUD to complete the actions mentioned above, policymakers would need to ensure that HUD's staffing was appropriate and was organized so that a merger could be successfully carried out with little or no adverse impact on the section 8 rental assistance program or on other agency activities.

As you know, we have recently designated HUD as a high-risk agency, in part, because of an organizational structure that blurs accountability, inadequate information and financial systems, and staff without the skills to effectively manage programs. The Office of Management and Budget (OMB) has also designated HUD at risk for its inability to ensure efficient and effective use of resources for achieving program results, while minimizing program risk and susceptibility to fraud, waste, and abuse. While

both our and OMB's designations of high risk are agencywide, given these historical inadequacies, HUD should be in a position to demonstrate that it can effectively carry out a merger before it is required to undertake it. In this vein, the Secretary of HUD announced a reorganization to correct organizational problems in December 1993. An implementation strategy is scheduled to be developed by September 30, 1994.

#### REAMORTIZING AND REFINANCING FMHA LOANS

I would now like to now discuss H.R. 3838's proposed amendment to allow the reamortization and refinancing of section 502 Farmers Home Administration housing loans. We began discussing this issue with housing advocacy groups and FmHA last fall and are currently working on a request from the Chairman, Subcommittee on Information, Justice, Transportation, and Agriculture, Committee on Government Operations, to examine the extent of the problem and the budgetary impacts of allowing reamortization/refinancing within the program. Although we have not yet completed the budgetary aspect of our work, the preliminary results from our work indicate that the regulatory prohibition against reamortization/refinancing results in the customers of FmHA's section 502 program paying interest rates significantly higher than rates available to households in the private sector. The regulatory prohibition exists primarily because FmHA officials interpret the current legislation as requiring refinancing be counted as a new loan, and they do not want to limit the amount of new loans that could be made during the year. Also, FmHA officials believe that refinancing or reamortization authority would conflict with its goal of encouraging graduation to private credit.

In evaluating the scope of the problem, we found that FmHA's portfolio of single-family section 502 loans has a large percentage of mortgages with high interest rates when compared to rates available to new FmHA borrowers or those available to households in



the private sector. For example, as of September 30, 1993, over 75 percent of FmHA's \$18.7 billion portfolio (about 600,000 loans) was at rates of 8 percent or higher. The current mortgage interest rate available to new FmHA borrowers is about 6.5 percent; private market rates are 7 to 7.5 percent. Furthermore, about 49,000 loans (over \$1.1 billion worth), are paying interest rates of 13 percent or higher. While many loans are receiving some amount of interest credit subsidy, over 400,000 FmHA borrowers with total unpaid principal loan balances of over \$6.4 billion are currently receiving no subsidy at all, including 14,760 loans paying interest rates of 13 percent or higher.<sup>6</sup>

Mr. Chairman, while we have not yet completed our analysis of the budgetary impact of allowing the refinancing and/or reamortization of section 502 loans, we have found some positive outcomes that may offset the impact of the government's receiving reduced interest payments.

- Since lower interest rates reduce monthly payments, refinancing or reamortizing existing loans should result in decreased delinquencies and foreclosures. In addition, the lower mortgage payments would increase households' disposable income, which they could spend in their local communities, making the communities economically stronger.
- Reducing interest rates will reduce the number of FmHA customers who are receiving interest credit subsidies. In fiscal year 1993 these subsidies amounted to about \$600 million. Reduced rates will also reduce the associated high servicing costs involved in

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<sup>6</sup>An interest credit subsidy reduces the homeowner's effective interest rate, thereby reducing the amount of the monthly mortgage payment. Payment assistance in the form of interest credit subsidies is granted to eligible borrowers whose confirmed income is below the FmHA published limits. The amount of subsidy is based on the borrower's verified income, real estate taxes, and property insurance.

performing interest credit checks. While the interest credits reduce the effective interest rate a homeowner pays, it also affects homeowners' wealth because recapture accounts are established to record the interest credits that the households receive. Homeowners are required to pay back a portion of the recapture account to the government upon sale of the property.

- As compared to a refinancing agreement that requires a new loan with associated closing costs, we believe that reamortizing an existing loan to a lower interest rate without changing the other loan terms, such as the life of the original loan, will minimize paperwork costs and best benefit the borrower.

One complication of allowing blanket reamortization or refinancing authority is the impact on "graduating" borrowers to the private sector. The section 502 program is designed to be a temporary source of credit for low-income borrowers. As such, FmHA is required to graduate qualified borrowers to private lenders when the borrowers are financially able. However, according to FmHA officials, the agency cannot force its customers to graduate because most U.S. attorneys will not back efforts to foreclose on current borrowers for refusing to graduate. This conflict of mission aspect needs to be worked out between the Congress and FmHA.

In connection with the specific proposal in H.R. 3838, I have a few comments.

- The regulatory prohibition against refinancing is in place because FmHA interprets the present legislation as requiring that refinanced loans count as new loans, thereby reducing the number of new borrowers who can be assisted. However, according to USDA's Assistant General Counsel, the amendment as currently written would not solve the problem of having to use current year funds.

- Any amendment to clarify refinancing/reamortization policy should specify the availability of the program to current as well as delinquent borrowers. Limiting an amendment to covering delinquent borrowers would create an incentive for current borrowers to become delinquent in order to obtain lower interest rates.
- The proposed amendment limits the reamortization benefits to a 3-year period. If this means the borrowers' payments will go back to the original loan rate after 3 years, the result will be an administrative ordeal for FmHA and a financial one for the customers.

LOAN MANAGEMENT AND PROPERTY  
DISPOSITION OF HUD'S MULTIFAMILY ASSETS

Finally, as we previously reported to you in our May 1993 testimony<sup>7</sup> and discussed with your staff in briefings on two ongoing assignments, there has been an increasing problem with HUD's ability to dispose of and manage its inventory of multifamily properties and mortgages. H.R. 3838, as well as other bills introduced in the Congress last year, provide frameworks for addressing these problems. In our view, prompt action on this legislation is needed. While the bills are similar in a number of respects, they differ in the extent to which they specifically require that properties be preserved after their disposition as rental housing for lower-income families.

The inventory of HUD's multifamily assets is made up of three main components--(1) foreclosed multifamily properties ("HUD-owned properties"), (2) assigned mortgages ("HUD-held mortgages"), and

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<sup>7</sup>Multifamily Housing: Impediments to the Disposition of Properties Owned by the Department of Housing and Urban Development (GAO/T-RCED-93-37, May 12, 1993).

(3) insured mortgages.<sup>8</sup> The numbers of HUD-owned properties and HUD-held mortgages have increased substantially over the past few years. Specifically, the HUD-owned property inventory increased from about 10,000 units to about 31,000 units between fiscal years 1990 and 1993. Another 38,000 units are in the process of foreclosure. Since 1989, the number of HUD-held mortgages has increased by about 50 percent. As of July 1993, HUD held 2,432 mortgages. In addition, a substantial number of insured mortgages are at risk of default. In fiscal year 1992, HUD established a loan loss reserve of \$11.9 billion to cover estimated losses from its \$43.6 billion portfolio of insured mortgages.

I will now further discuss the management and disposition of HUD's multifamily assets.

#### Management of HUD-Held and Insured Loan Portfolios

According to HUD, a number of factors have led to the problems with its insured and HUD-held loan portfolios. These factors include the economic and tax consequences of the 1980s recession and the 1986 Tax Reform Act, the age and condition of the properties, and weaknesses in HUD's loan management capabilities. As of July 20, 1993, 2,432 mortgages with a total unpaid principal balance of \$7.45 billion had been assigned to HUD. While slightly more than half of the loans were delinquent, the delinquent loans represented about \$6 billion of the unpaid principal--or 80 percent of the total unpaid principal balance. In addition, 322 of the

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<sup>8</sup>The Federal Housing Administration (FHA) provides insurance to lenders to protect them from financial losses stemming from a borrower's default on a multifamily mortgage. When a default occurs, a lender may assign a mortgage to HUD, file an insurance claim, and obtain the claim amount from HUD. HUD, generally, will try to bring the defaulted loan current; but if the loan cannot be brought current, HUD may foreclose on the mortgage. HUD will try to sell the mortgage at foreclosure or else the property will end up in its inventory.



delinquent loans were either in foreclosure or had been recommended for foreclosure.

Furthermore, the potential exists for a far greater number of insured loans to default and for additional losses to be sustained by the insurance funds. As of September 30, 1992, HUD had insurance-in-force on over 15,000 multifamily loans with a unpaid principal balance of about \$43.6 billion. According to the Federal Housing Administration's fiscal year 1992 financial statements, as audited by Price Waterhouse, a substantial portion of these loans are at risk of default. In anticipation of these future losses, HUD increased its loss reserves--the net amount in present dollar terms that HUD expects to lose when insured loans default--to \$11.9 billion. This estimate assumes that properties that currently receive subsidies will continue to receive them in the future.

H.R. 3838 contains several provisions that HUD believes are needed for it to more effectively carry out its loan management functions and reduce the potential for future assignments and foreclosures. These provisions are similar to those in S. 1299. According to HUD, among the most significant provisions in the bills are those governing the sale of HUD-held mortgages. The legislation restates the conditions under which HUD can sell subsidized mortgages and clarifies HUD's authority to sell unsubsidized mortgages. HUD officials believe that decreasing the number of HUD-held mortgages through a sale will relieve some of the workload for its loan servicing staff and will also reduce losses to the insurance funds. While the bills' provisions should help HUD improve the management of its HUD-held loan portfolio, given the serious nature of the problem, it is important that HUD's success in reducing delinquencies and avoiding foreclosures be closely monitored.

### Disposition of HUD's Multifamily Properties

The growth in the HUD-owned inventory stems from provisions in the Housing and Community Development Act of 1987 that require HUD, upon disposition, to ensure the goal of preserving many of the units in its multifamily inventory as affordable rental housing for low- to moderate-income people for 15 years. Specifically, HUD is mandated to preserve all units in "subsidized"<sup>9</sup> properties and those units occupied by low-income tenants in "unsubsidized" properties. To ensure that these units are available and affordable to low-income people, HUD generally uses a federal rental subsidy program, known as project-based section 8 assistance.<sup>10</sup> However, because of the limited amount of section 8 funds available to meet these section 8 requirements, HUD has been able to dispose of only a relatively small number of multifamily properties in recent years.

H.R. 3838, as well as H.R. 3400 and S. 1299, which passed the House and Senate respectively last year, provide frameworks for addressing the problems of HUD's disposition of multifamily properties. Each of these bills recognizes that the disposition of properties requires a careful balancing of several goals, including (1) protecting the federal government's financial interests, (2) preserving housing so that it remains affordable to low-income people, and (3) preserving and revitalizing residential

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<sup>9</sup>A "subsidized" property is one that was receiving a subsidy--such as a below-market interest rate loan or other rental payment assistance--or Housing Assistance Payments (such as project-based section 8) for more than 50 percent of its units before HUD acquired it. An "unsubsidized" property was not receiving any subsidy or was receiving a Housing Assistance Payment for less than 50 percent of its units.

<sup>10</sup>Under this program, HUD pays the project owner the difference between what a tenant can afford to pay (30 percent of income) and the actual rent for the unit.

neighborhoods. However, they differ in terms of the extent to which they mandate preserving properties and protecting tenants.

In his statement before the Committee on February 24, 1994, the HUD Secretary cited the importance of revising the current legislative requirements for multifamily property disposition. We agree with his assessment that the need for prompt action on this matter is critical. The problems we identified with HUD's multifamily property disposition and loan management were a major factor in our recently designating HUD as "high risk."

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Mr. Chairman, this concludes my statement. I would be pleased to respond to any questions you or Members of the Subcommittee may have.

(385417)





## APPENDIX

March 16, 1994

**Opening Statement****Chairman Henry B. Gonzalez****Subcommittee on Housing and Community Development****H.R. 3838**

This is the third in a series of hearings that will address the reauthorization of federal housing and community development programs for fiscal years 1995 and 1996. The focus of this hearing will be the community development block grant program and the HOME Investment Partnerships program. I have always said that this Subcommittee's jurisdiction is housing and community development and this is the hearing where those two major and appropriate concerns are highlighted together.

I look forward to the witnesses testimony as to whether the CDBG and HOME programs are meeting the needs in the communities across America. The reauthorization bill, H.R. 3838, which was introduced with bi-partisan support on February 10, includes a number of technical changes to the HOME program that I hope will simplify the localities' ability to administer the program.

H.R. 3838 also includes the Administration's legislative request that will provide for the recapture of Urban Development Action Grant funds in order to be used in conjunction with section 108 loan guarantees. This will enable the locality which is conducting an economic development activity to create a loan loss

reserve or to buydown the interest rate.

Before I proceed I would also like to express my opposition to this Administration's attempt to decrease HOME funding by \$275 million, because of so-called budget restraints. While I realize that participating jurisdictions have HOME funds in the pipeline, the problem will not be resolved by reducing their allocation. Simplifying the commitment process or providing the participants with additional technical assistance will improve the HOME program.

Fortunately, the Administration has not reduced funding for the CDBG program; the program under our jurisdiction which provides funding for infrastructure improvements in our nation's communities. I am, however, disturbed by the set-asides from the CDBG program that were included in the Administration's budget request. The Operation LIFT program will be closely scrutinized by the Subcommittee once the Congress receives the Department's legislative requests for 1994. At a time when our cities are striving to rebuild their crumbling infrastructure and to restore their workforce, it would be disastrous to demonstrate a diminished federal effort in housing and community development.

I am confident that the witnesses today, based on their firsthand knowledge, will offer insightful testimony as to the role of the CDBG and HOME programs in their regions.

3/16/94

REMARKS OF  
HONORABLE MARGE ROUKEMA - HOUSING AUTHORIZATION  
PUBLIC HOUSING/ SECTION 8 PROGRAMS

Mr. Chairman, today we continue to receive testimony on the reauthorization of our federal Housing programs.

The topics for consideration today are the CDBG and the H.O.M.E. programs and I want to welcome our witnesses here today.

In the interest of time, I will refrain from my usual comments in support of these two programs and move right to some specifics.

With respect to CDBG, the Administrations's request for \$4.4 billion and the Chairman's proposal for \$4.5 billion demonstrates the continued strong support for the program. I believe the Congress will support this level of funding.

However, I am concerned with HUD's request to set aside some \$200 million for a new initiative known as LIFT, "Leveraged Investments for Tomorrow."

We have not seen the legislation for this program yet but we have been told that this program may seek to provide subsidies to private enterprises and businesses or to leverage private investments for mixed-use development projects in distressed neighborhoods.

My concern is not for the objective of this initiative, some new form of economic development. My concerns are two-fold.

First, we are being asked to establish yet another new set-aside within the CDBG program which assumes that traditional state and local efforts to develop relationships with the private sector may not be effective and that the federal government must intervene.

CDBG was created to be a flexible program that would provide federal funds to states and localities to be used to meet local needs and based on local decision-making. These set-asides represent a profound shift away from the very intent of the program.

I am also concerned because the adoption of LIFT will result in a \$200 million decrease in the overall funding level for the program. This will result in less funds for the grantees.

By all objective measurements and studies conducted by HUD and other oversight agencies, the CDBG program continues to be an effective Federal, State and local partnership in which 90 percent of the funds available are used to principally benefit low- and moderate income citizens.

Now, the CDBG program is not without its problems. Those have been documented and HUD is working on the solutions.

But the CDBG program does work, it is an important **supplement** for local programs and the infrastructure and housing programs supported by the CDBG program help stimulate the economy and strengthen the nation's overall growth.



## HOME INVESTMENT PARTNERSHIP

With respect to the HOME program, I will simply restate my strong support for HOME and restate my position that HUD's Fiscal Year 1995 budget request for HOME is unacceptable.

As an early proponent of HOME, I believe this was perhaps the single most important program created by the Congress in the 1990 Housing Act.

To date, witnesses who have come before this Committee to testify on the HOME program, have said that it is a much welcomed program.

And, to their credit, all have been forthright in identifying areas for change which would improve the efficiency of the program. Both you and I, Mr. Chairman, have introduced several improvements to this program and I believe many, if not all, of those can be accommodated.

However, the H.O.M.E. Partnership was also created specifically to ensure the promise of a steady flow of Federal funds which would allow a more rational long-range planning process.

I hope Mr. Chairman that we can work together to restore an adequate funding level to this important program.

With that said, however, I want to express a few concerns I have with respect to HOME.

First, I am concerned with the so-called "pipeline" argument which is being used to justify the proposed budget reductions.

If there is a pipeline, I hope our witnesses today will address the size and reasons for it. However, I believe cutting this program is premature and that given the appropriate amount of time and the necessary changes that many of our witnesses have brought to our attention, this program will become a successful housing production tool.

I am informed that much of the HOME funds are being used for rental housing projects, homeowner rehabilitation, and first-time homebuying.

However, I am a little concerned with the limited amount of funds being used for new construction at this time. I understand that part of this is due to the high match requirement. I believe our Committee will lower the match to a flat 25 percent for all activities and when that happens I hope to see more new construction activity.

However, many jurisdictions are being urged to use more funds for tenant-based rental assistance. I want to caution those jurisdictions in the strongest possible terms to be careful here. Rental assistance is fine in a limited sense where affordable rental units are available.

However, I do **not** want to see the HOME program become another Section 8 program. Rental assistance was an eleventh-hour addition and only for a limited duration. If you are confident that those you assist can be weaned off rental assistance in the short term, fine. If not, more and more of your funds will have to be used to renew this type of assistance.

Let me conclude on HOME by saying that the HOME program is making significant progress in trying to demonstrate its productivity and merit. I have been a sponsor and a strong supporter of HOME since its original conception and really hope to see this program succeed.

I look forward to the testimony today.

**OPENING STATEMENT OF THE HONORABLE KWEISI MFUME  
ON THE HEARING BEFORE THE HOUSE SUBCOMMITTEE ON HOUSING**

Wednesday, 3/16/94

Thank you, Mr. Chairman, for convening this hearing today to talk primarily about two very important programs -- the Community Development Block Program and the Home Investments Partnerships program. Both of these programs deal with some very real needs in our society, and I was pleased to see both addressed in H.R. 3838.

Let me also express my pride and indeed pleasure over the list of witnesses we have with us today. To begin we have the Mayor of Baltimore, Kurt Schmoke. We also have his Housing and Community Development Commissioner, Mr. Daniel Henson. While these men are here to discuss the views of their respective organizations, I would hope that they would also take some time to discuss some of the projects that the city of Baltimore has undertaken with CDBG and HOME monies.

As anyone familiar with the housing or community development fields can attest, Baltimore has undertaken some innovative, and indeed successful projects. Probably the jewel in the crown is the Sandtown-Winchester project, which this subcommittee visited a couple of years ago.

Sandtown-Winchester is a 72 square block community on Baltimore's west side. It is home to 10,300 residents; over half of the households have incomes under \$10,000, and four out of five children live in poverty.

In 1990 Mayor Schmoke, along with community residents and the Enterprise Foundation, formed Community Building in Partnership in order to launch the nation's first "Neighborhood Transformation" program. After seven months of planning and three years of implementation Sandtown-Winchester is truly a community in transformation.

More than fifty projects and services have been initiated in Sandtown-Winchester, including the development of more than 1,000 housing units and a new multi-purpose community center; a health outreach program linking pregnant mothers with prenatal and infant care; the planting of over

30 community gardens; the establishment of a residents' food and clothing cooperative; and the production of a neighborhood newspaper.

Mr. Chairman, the CDBG program is one of the few programs that is almost universally popular in Congress as well as among the state and local officials and the public, which recognizes its benefits. Now in its twentieth year, the CDBG program has, literally, been a major player in the building of America these last two decades. I was pleased to see both the Administration and our Chairman propose increases in funding for the CDBG program, as I feel the amounts being discussed are well deserved.

I am also looking forward to hearing testimony from our panelists regarding the HOME program. This program has the potential to be as useful to communities as the CDBG program, but because it is new I understand that there are a few kinks that must be worked out.

I therefore hope that the people before us today will be so kind as to talk about their experiences with the HOME program, discuss its effectiveness to date as well as its potential, and offer suggestion about how to improve the program. I would also be interested to know if the panelists agree that the HOME program should receive less funding in FY'95 than it did in FY'94, as is suggested by the President in his budget proposal.

Thank you again, Mr. Chairman, for convening this hearing and for the distinguished panelists we have before us. I look forward to hearing what they have to say and to working with them, and you, to ensure that H.R. 3838 is as productive and effective as possible.



Opening Statement of Congresswoman Maxine Waters  
Subcommittee on Housing and Community Development  
March 16, 1994

"The Community Development Block Grant Program and the  
Home Investment Partnership Program"

Good morning Mr. Chairman, I am pleased to be here and I commend you on these on-going hearings to examine the various authorization issues addressed by H.R. 3838.

I am particularly interested in the two programs that we will discuss today -- Community Development Block Grant and the Home Investment Partnership Program. Mr. Chairman, I am especially pleased that H.R. 3838 provides for reauthorization of the Section 108 loan guarantee program as well as amending language to further enhance the programs ability to create greater opportunities for economic development. I have been and continue to be a strong supporter of the Section 108 loans because I truly believe they provide a meaningful response to the crisis in our cities. So I really want to thank you Mr. Chairman for including these initiatives in H.R. 3838.

I want to make a few comments regarding the Home Investment Partnership Program and share my concerns regarding the implementation of the program and particularly

the planning process associated with the program.

In Los Angeles, it appears that far too often non-profits or Community Housing Development Organizations apply for and receive Home funds and immediately go about the business of constructing low-income housing without taking into consideration the real needs of the community. Now, as I understand the program, grantees must submit a CHAS, comprehensive housing affordability strategy. The CHAS is supposed to be a 5 year plan addressing a communities need and demand for low income housing. It would seem to me that any planning process in this regard would automatically include the involvement of citizens in determining the community needs, social services, cultural enhancements; recreation, site selection and design; economic development, and so forth. I don't see this happening and I hope that this is something that HUD and this Committee will take a look at as we continue in our discussions on the HOME Program. Mr. Chairman, let me make clear that I remain one of the strongest advocates for low income housing but we are going to have to take a look at the issue of density and impaction and make sure that we are not targeting certain neighborhoods and thereby perpetuating ghettos. I just think that in our planning we have to be sure that we don't saturate a community with low income housing and in the process over-look the economic development needs of the community.

Mr. Chairman I look forward to my continued work on this committee as we continue to address reauthorization issues. Thank you.

CAROLYN B. MALONEY  
14TH DISTRICT, NEW YORK  
COMMITTEE ON BANKING, FINANCE  
AND URBAN AFFAIRS

COMMITTEE ON  
GOVERNMENT OPERATIONS

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**OPENING STATEMENT**

**Subcommittee on Housing**  
**Hearing on HR 3838: the Community Development Block Grant Program**

**March 16, 1994**

Thank you Mr. Chairman. Today's hearing focuses attention on a program that remains somewhat controversial despite the excellent success it has in providing funds for development in urban areas.

Each year, it seems, someone gets the idea that we should eliminate the CDBG program in favor of deficit reduction and more narrowly defined Federal assistance to our cities.

However, as a former city legislator let me tell you that few Federal programs are as important to the cities as CDBG.

First and foremost, the flexibility of the CDBG program allows each city to define for itself the significant programs needs that require funding.

This means that while New York City might focus on housing rehabilitation, a small city might focus on other types of infrastructure problems.

As I'm sure we're all too familiar, the least successful programs established by the Federal Government are those that try and put all cities into the same cookie cutter mold.

But if Federal programs don't recognize that there are fundamental differences between Buffalo and Boise, the seeds of those programs demise will have been sown from the beginning.

When the Banking Committee passed the Community Development Banking bill last year, we made sure that the maximum amount of flexibility was built into the Trust Fund.

That same flexibility for local initiatives is the hallmark of the CDBG program, Mr. Chairman.

I look forward to working with you to re-authorize and improve this significant Federal initiative.

Thank you.



! *my old friend*

OPENING STATEMENT OF THE HONORABLE DOUG BEREUTER  
BEFORE THE SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT  
MARCH 16, 1994

Mr. Chairman, I want to thank you for holding this hearing today and for providing a forum for discussions of the future of the Community Development Block Grant program.

While I recognize and praise the successes of the CDBG program, I am concerned about the increasing trend of using CDBG for economic development purposes, rather than community infrastructure development. I am concerned also, about the Clinton Administration's new LIIFT proposal to fund private enterprises in distressed neighborhoods. While it is imperative to provide economic assistance, and all forms of development, for troubled neighborhoods, there seems to be much potential for abuse in this newly proposed program. I am concerned too, that the funding for this program is to come from the existing CDBG program, at the expense of what may well be the more appropriate goals of the existing program.

Additionally, I will be interested in hearing the witnesses opinions regarding the use of recaptured UDAG funds in conjunction with Sec. 108 loan guarantees. While this is an interesting and innovative proposal, I do have some concerns both about reallocation of these funds and HUD's ability to handle pooling of Sec. 108 funds for leveraging purposes.

Again, Mr. Chairman, thank you for holding this hearing. I look forward to the witnesses testimony.



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### Testimony of

## THE HONORABLE KURT SCHMOKE Mayor of Baltimore

### On Behalf of

## THE UNITED STATES CONFERENCE OF MAYORS

### Before the

## SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT U.S. HOUSE OF REPRESENTATIVES

Wednesday, March 16, 1994

Good Morning Mr. Chairman and members of the subcommittee. Thank you for inviting me to testify this morning. As Mayor of Baltimore, I serve as Chair of The U.S. Conference of Mayors Standing Committee on Community Development and Housing.

Mr. Chairman, the Conference of Mayors would like to commend you on H.R. 3838, the Housing and Community Development Act of 1994. It is, of course, necessary that existing housing and community development programs be authorized for FY95 and FY96, but it is also necessary that new programs be developed and authorized and existing programs be refined and improved upon. And, all of this is achieved in H.R. 3838.

As mayors we know that there is a great deal to be done to address housing and community development needs. The U.S. Conference of Mayors most recent Status Report on Hunger and Homelessness In America's Cities, a 26-city survey, makes the extent of the need very clear. We found that last year requests for assisted housing by low income families and individuals increased in 70 percent of the cities surveyed; applicants must wait an average of 21 months for public housing in the survey cities; the wait for Section 8 housing is 35 months and for vouchers it is 31 months; and, fifty-eight percent of the cities have stopped accepting applications for at least one assisted housing program due to the excessive length of the waiting list. (I have attached more detailed data on our findings to this testimony for the record).

With these conditions in our cities, H.R. 3838 is an important step in continuing to address the housing and community development needs of citizens across the nation.

My comments this morning, Mr. Chairman, are on several aspects of the bill that are of particular importance to the U.S. Conference of Mayors.

I would first, however, like to make a few comments on the President's FY95 HUD Budget as it relates to the programs in H.R. 3838. While overall we are pleased with the FY95 HUD Budget request, there are several items that give us concern. The cuts in public housing assistance-- operating subsidies, modernization, new construction and aid for severely distressed public housing -- are misguided. Similarly, the cut in elderly and disabled housing is unwise.

We are also very concerned about the \$275 million in the HOME Investment Partnership program. This program has come a long way since its creation in 1990, and indeed, it is further refined in H.R. 3838 to work even better. Funding commitments by localities and states are up and the projects being developed are benefiting our low-income tenants. We feel that a cut of \$275 million to HOME is far too deep for a program that is just now beginning to really take off. Mayors believe that HOME will become the primary production program for cities in the 1990s and beyond.

I would also like to comment on one of the new initiatives in the FY95 HUD Budget that is very troubling to us. It is the Leveraged Investments for Tomorrow (LIFT) program. As you know, HUD would use \$200 million of Community Development Block Grant (CDBG) funds to award competitive grants to distressed urban neighborhoods to pursue leveraged private investment in strategic non-residential or mixed-use development projects. To be sure, the rationale for this program is good, and



we commend HUD on its development. Our problem is that it would be funded from existing CDBG funds. The earmark of \$200 million is a cut in the CDBG program. And this we oppose.

As for our specific comments on H.R. 3838, first of all, let me say that we are once again pleased with your continued support of the CDBG program. The CDBG program, Mr. Chairman, continues to work well and is deserving of the popularity that it enjoys here in Congress and in our nation's cities. As we celebrate the 20th Anniversary of the program, the nation's mayors would like to thank you and members of the subcommittee for your efforts in making CDBG stronger.

Except for the provisions included in your bill, we do not call for any fundamental changes in the CDBG program. We do, however, have a recommendation on the expansion of the CDBG Section 108 loan program. In general, we think this initiative that was proposed by HUD last year is a good one. But we do have a concern about the use of recaptured Urban Development Action Grants (UDAGs) to fund the grants that would lower interest rates and provide loan loss reserves. Cities with those unexpended UDAG grants certainly do not want to lose the money; they would like to find some way to make use of the funds. We, of course, realize that cities cannot hold onto unspent UDAG funds indefinitely.

Last year, the Senate developed a UDAG Amnesty program which would allow cities with unspent UDAG grants to return a certain percentage of the funds to HUD that could be used for the Section 108 economic development initiative. The remaining funds could be retained by the cities to be used for eligible

economic development activities. We would suggest that the H.R. 3838 adopt this approach.

With respect to the HOME program, even after the 1992 Housing Act, there still are a number of legislative refinements which would make for a more efficient program. So therefore, we agree, Mr. Chairman, with the changes that have been made in the HOME program in H.R. 3838. In fact, many of the HOME provisions of H.R. 3838 have been suggested by the Conference of Mayors and several national organizations representing state and local governments as well as non-profits.

The changes that we have suggested and included in H.R. 3838 are:

- o Uniform Match -- this replaces the current two-tiered match with a uniform match of 25 percent for all HOME eligible activities. This makes the program simpler and removes the bias against new construction.
- o Calculate Programwide Targeting by Units Assisted Rather than Funds Spent -- this replaces the current law requirement that programwide funds targeting be accounted for by funds expended with a requirement that targeting be accounted for by units assisted. This provision also simplifies the program.
- o Recapture of Funds Used for Homeownership -- this modifies the requirement that funds used for homeownership which are recaptured by a participating

jurisdiction be used only for homeownership, allowing them to be used for any HOME-eligible activity. This provision will increase the program's flexibility.

- o Environmental Review by States -- this provides authority for states to delegate environmental review to local governments to which they allocate HOME funds. This is permitted under the CDBG program.
- o State Administration of HOME -- this adds state "instrumentalities" to the definition of state in order to permit state housing finance agencies to administer HOME directly rather than as subrecipients.
- o Housing Services Under CDBG -- this eliminates the current law requirement that housing services activities under CDBG be subject to the 20 percent administrative cap. This is a technical correction. The law prior to 1992 did not place these activities under the cap.

One recommendation that we made along with the other national organizations is that the provision in the statute should be eliminated which reduces the threshold to \$335,000 for direct local funding whenever the congressional appropriation falls below \$1.5 billion; we recommend returning the threshold to \$500,000. We also suggested, hold harmless of any existing participating jurisdiction. We urge the Subcommittee to consider this provision as part of H.R. 3838.

Before closing, Mr. Chairman, I would like to comment on a couple of other programs that will be considered in the bill.

Regarding the provisions on multifamily housing property disposition, we would recommend that HUD be given the necessary flexibility to move the properties. Accordingly, tenants already receiving subsidies should continue to receive subsidies. We view this as a very serious problem for cities. If these properties are not taken care of, they will certainly become a detriment to our neighborhoods.

Although, we have not seen the plan, we have been told that HUD is now planning the consolidation of homeless programs. In the past, as you know, we have been opposed to the consolidation and block granting of these programs. But we believe that if the programs are to be funded at a significant level, consolidation might now be feasible. We look forward to working with you, Mr. Chairman, and members of the subcommittee and HUD on such a plan.

In closing, Mr. Chairman, I would like to thank-you and the subcommittee for the opportunity to testify this morning. We look forward to working with you further in the development of the 1994 housing and community development reauthorization bill. Thank-you.



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**A STATUS REPORT  
ON  
HUNGER AND HOMELESSNESS  
IN AMERICA'S CITIES: 1993**

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**A 26-CITY SURVEY  
DECEMBER, 1993**



**THE UNITED STATES  
CONFERENCE OF MAYORS**

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## HOUSING

### Assisted Housing Requests

During the last year, requests for assisted housing by low income families and individuals increased in 70 percent (16) of the survey cities, remained the same in 17 percent (four) of the cities and decreased in 13 percent (three) cities. Requests increased in Boston, Chicago, Cleveland, Los Angeles, Miami, Minneapolis, Nashville, Norfolk, Philadelphia, Portland, Saint Louis, Salt Lake City, San Antonio, San Diego, Santa Monica and Trenton. They remained the same in Alexandria Charleston, Louisville and New Orleans. They decreased in Kansas City, New York City and Seattle. Among the city officials' comments on the increase in requests for assisted housing:

- \* **Boston:** Cuts in programs like the Massachusetts Rental Voucher Program have increased the requests for the remaining housing assistance programs.
- \* **Chicago:** Continued increases in rents and decreases in low and moderate housing units contribute to more requests for assistance.
- \* **Los Angeles:** The increase in unemployment as well as a reduction in general relief created a greater demand for publicly subsidized housing.
- \* **Nashville:** There has been an increase in public housing applications and an increased volume of calls from persons wanting Section 8 assistance.
- \* **Philadelphia:** In Philadelphia, the demographic and employment trends have exacerbated the problem of poverty. Increasing poverty has intensified the need for housing and support services. The 1990 Census indicates that the need for affordable housing in Philadelphia is great. According to the CHAS Databook (a special tabulation prepared by HUD) the affordability crisis appears to affect renters more than homeowners: 46 percent of renter households pay more than 30 percent of their gross income for housing, and 26.3 percent pay more than 50 percent.

Although the number of persons on PHA waiting lists severely under-represents the total number of households with such need, those waiting lists also indicate the need for low-income rental housing. According to PHA, there are currently 13,960 families on the Section 8 waiting list and 8,982 on the Public Housing waiting list (some families are on both lists). The number of persons on the waiting lists is relatively low for two reasons. First, not everyone who desires PHA housing is able to apply. PHA has recently opened its waiting lists for those homeless applicants who are in the preference Tier I, because their status can be certified by the City's Office of Services to the Homeless and Adults. Since 1981, however, the lists have been closed to all other applications needing a two bedroom or larger unit. Second, the general public knowledge that those on the list may wait two years to be placed in a public housing unit (and as long as three years for a Section 8 unit) has discouraged applications from families in immediate need of housing.

In contrast to the number of persons seeking PHA housing, many of whom must wait years for assistance, the number of available units has been diminishing over time. Several thousand units are unavailable because of substandard conditions.

- \* **Portland:** The waiting list for Section 8 housing increased six percent, 60 percent for low rent public housing.
- \* **Saint Louis:** The need for assisted housing is constant. Our entire jurisdiction only received 155 Section 8 certificates for a city with 396,000 people, more than 28 percent of whom are very low income.

**Louisville** officials explain that their city has seen an increase in low-cost housing units because the Abramson administration has worked diligently for the last eight years to address low cost housing. This was done by creating and developing partnerships with the private lending institutions in the housing industry. In Louisville, requests for assisted housing remained the same during the last year.

### The Wait for Assisted Housing

Applicants in the survey cities must wait for public housing for an average of 21 months from the time of application until they actually receive assistance. For Section 8 housing the average wait in the cities is 35 months; for vouchers it is 31 months.

- \* For **public housing** the average wait ranges from 42 to 48 months in Alexandria, 36 to 48 months in San Diego, 36 months in Chicago, Saint Louis and Trenton to six months in Cleveland and Louisville, three months in Nashville and one month in San Antonio.
- \* The average wait for **Section 8** housing ranges from 132 months in Chicago, 48 months in New Orleans, 42 to 48 months in Alexandria, 36 to 60 months in San Antonio and 36 to 48 months in San Diego to nine to 12 months in Charleston.
- \* For **vouchers** the average wait ranges from 132 months in Chicago, 42 to 48 months in Alexandria and 36 to 60 months in San Antonio to nine to 12 months in Charleston, six months in New Orleans and three months in Los Angeles.

Fifty-eight percent of the survey cities have stopped accepting applications for at least one assisted housing program due to the excessive length of the waiting lists. The 14 cities which have stopped accepting applications are Alexandria, Boston, Chicago, Cleveland, Denver, Minneapolis, Nashville, Norfolk, Philadelphia, Portland, Saint Paul, San Antonio, Santa Monica and Trenton.

Among the comments by the city officials on the closed waiting lists:

- \* **Alexandria:** The Alexandria Redevelopment and Housing Authority closed its waiting list for one, two and three bedroom units in December of 1989. The waiting list for two bedroom units was opened in March of 1992 and closed again in April of 1992. In the one month period the Housing Authority received over 1,000 applications. The Housing Authority opened and closed the waiting list for one bedroom (non-elderly) in October of 1992. The waiting list for one bedroom (elderly) has remained open. The waiting list for three bedroom units has

remained closed since December of 1989. Currently, there are 1,079 households on the waiting lists.

- \* **Boston:** Lists are closed for the Section 8 and voucher programs.
- \* **Chicago:** Lists for non-elderly households have been closed since 1985 except for federal preference categories.
- \* **Minneapolis:** Waiting lists are closed for family housing and special needs housing.
- \* **Nashville:** Section 8 application taking was suspended in August 1991. On November 5, 1993, application taking was resumed on Fridays only of each week.
- \* **Norfolk:** The waiting lists are closed for Section 8, voucher and public housing.
- \* **Philadelphia:** The Philadelphia Housing Authority has stopped taking applications from the general public; only homeless persons within the Tier I preference are given a priority.
- \* **Portland:** Section 8 is closed. All other lists are open except two and three bedroom apartment units.
- \* **Saint Paul:** Waiting lists are closed for three and four bedroom public housing units and all Section 8 certificates and vouchers.
- \* **San Antonio:** The Section 8 and Moderate Rehabilitation Programs have closed their waiting lists.
- \* **Santa Monica:** The Section 8 waiting list is closed for all categories and it is not expected to open until 1994. This year 120 new certificates were awarded out of 5,000 requests.
- \* **Trenton:** Public housing and Section 8 are currently not accepting applications.

Applications for assisted housing are being accepted in Charleston, Kansas City, Los Angeles, Louisville, New Orleans, New York City, Saint Louis, Salt Lake City, San Diego and Seattle. Among the explanations by officials in these cities:

- \* **Kansas City:** The Missouri Housing Development Commission reports lists are closed for Section 8 certificates and vouchers (homeless). The Housing Authority of Kansas City reports lists have not been closed. Due to a consent decree, our waiting lists remain open.
- \* **New Orleans:** They continue to accept applications, but people stay on the waiting list for years. Our public housing has many vacancies, but very poor conditions and significant renovations are needed before renting many apartments. The waiting list for Section 8 has been closed.
- \* **Saint Louis:** Waiting lists are heavily dependent on the availability of funds. One and two bedrooms are more available than two and three bedrooms.



### Special Needs Housing

Among those with special needs, it is most difficult to find assisted housing for large families and for mentally ill persons. Those next most difficult to find housing for are persons with AIDS and homeless people.

- \* Twelve (55 percent) of the responding cities identified **large families** as a special needs population for whom it is particularly hard to find assisted housing: Alexandria, Boston, Charleston, Cleveland, Denver, New York City, Norfolk, Portland, Saint Louis, Santa Monica, Seattle and Trenton.
- \* Twelve cities as well identified **mentally ill persons** as a special needs population difficult to house: Chicago, Cleveland, Denver, Los Angeles, Louisville, Nashville, New Orleans, New York City, Norfolk, Salt Lake City, San Antonio and Trenton.
- \* Twenty-seven percent (six) of the cities reported that it is particularly hard to find housing for **persons with AIDS**: Chicago, Los Angeles, Minneapolis, New Orleans, New York City and Trenton.
- \* Kansas City, Los Angeles and Philadelphia all reported that it is difficult to find housing for **homeless people**.

### People Served by Assisted Housing

An average of 28 percent of eligible low income households are currently served by assisted housing in the survey cities. The percentage of those served ranges from 60 percent in Louisville and New Orleans, 39 percent in Portland and Saint Paul and 37 percent in Nashville to 20 percent in Los Angeles, 15 percent in Chicago, 13 percent in Norfolk and 10 percent in San Antonio and Santa Monica.

## CITY DATA ON HOUSING

CITY	HOUSING REQUESTS	PUBLIC HOUSING WAIT IN MONTHS	SECTION 8 WAIT IN MONTHS	VOUCHER WAIT IN MONTHS	STOPPED ACCEPTING APPS	PERCENT OF NEED MET
Alexandria	same	42-48	42-48	42-48	yes	NA
Boston	increase	15	26	26	yes	30
Charleston	same	12-16	9-12	9-12	no	34
Chicago	increase	36	132	132	yes	15
Cleveland	increase	6	NA	NA	yes	33
Kansas City	decrease	12-26	12-26	12-26	no	NA
Los Angeles	increase	24	38	3	no	20
Louisville	same	6	24	30	no	60
Minneapolis	increase	9	24	24	yes	27
Nashville	increase	3	30	30	yes	37
New Orleans	same	28	48	6	no	60
Norfolk	increase	12	30	30	yes	13
Philadelphia	increase	6-25	14-20	14-20	yes	7
Portland	increase	3-36	18-36	NA	yes	39
Saint Louis	increase	36	36	36	no	14
Saint Paul	NA	12-60	24	24	yes	39
Salt Lake City	increase	1-24	6-24	6-24	no	NA
San Antonio	increase	1	36-60	36-60	yes	10
San Diego	increase	36-48	35-48	NA	no	NA
Santa Monica	increase	NA	24	NA	yes	10
Seattle	decrease	24	24-36	24-36	no	24
Trenton	increase	36	36	36	yes	NA

March 16, 1994, hearing held by the  
Subcommittee on Housing and Community Development,  
entitled "H.R. 3838, Housing and Community  
Development Act of 1994"

QUESTIONS FROM CHAIRMAN HENRY B. GONZALEZ TO  
HONORABLE KURT SCHMOKE

1. What are your suggestions as how to promote the amount of economic development activities conduted by CDBG recipients. Will the UDAG recaptures, which may provide the Department with only \$100 million in extra funding, used in conjunction with the section 108 loan guarnatees reduce communities' reluctance to engage in economic development activities with section 108 loan guarantees.

Are local community development agencies aware of the section 108 program and its requirements? Do they have the capacity to create viable loans arrangements with other organizations or is greater technical assistacne needed to assist them? Do you fell as if HUD has the capacity to review these laon applications and make a informed judgeemnt as to whether they are worth the risk?

2. In your estimation, what hinders communities from conducting economic development activities? Is legislative or regulatory change necessary to increase communities' participation in economic development activities?

3. How do you feel about increasing the public servies cap in he CDBG program?

4. How do you feel about expanding the eligible activities for Section 108 loan guarantees for the purpose of financing non-housing, community facilities?

5. In your testimony you have noted HUD's interpretation of statutory provisions concerning match. Can you give us other examples of regulatory "over interpretation"--not now but in writing, so that if necessary we can reaffirm Congressional intent?

(Responses from Hon. Schmoke)

1) What are your suggestions as how to promote the amount of economic development activities conducted by CDBG recipients. Will the UDAG recaptures, which may provide the Department with only \$100 million in extra funding, used in conjunction with the section 108 loan guarantees reduce communities' reluctance to engage in economic development activities with section 108 loan guarantees.

Are local community development agencies aware of the section 108 program and its requirements? Do they have the capacity to create viable loans arrangements with other organizations or is greater technical assistance needed to assist them? Do you feel as if HUD has the capacity to review these loan applications and make a informed judgement as to whether they are worth the risk?

Response: We believe that the Section 108 program is a useful tool for getting local governments involved in economic development activities. In some cases the UDAG recapture will provide the incentives for communities to use the Section 108 Loan Guarantee program. However, the funding is probably too small to have a significant impact on the \$2 billion available for loan guarantees to local governments.

HUD's career staff has been looking at Section 108 loan applications for some time. We believe that they have the capacity to review the applications and make good judgments on them.

2. In your estimation, what hinders communities from conducting economic development activities? Is legislative or regulatory change necessary to increase communities's participation in economic development activities?

Response: Cities complain that burdensome HUD regulations have kept them from conducting economic development activities with CDBG. Because of restrictive regulations, cities have attempted to use other means to pursue economic development. And whereas there really are no significant federal programs available for local development purposes, cities would like a loosening of the HUD regulations on using CDBG for economic development or a legislative remedy to achieve this result.

3. How do you feel about increasing the public services cap in the CDBG program?

Response: The U.S. Conference of Mayors supports increasing the public services cap in the CDBG program. Mayors adopted policy calling for an increase in 1992 and said that many cities could spend more of their CDBG funds on public services to address human development needs if there were a change in federal law.

4. How do you feel about expanding the eligible activities for Section 108 loan guarantees for the purpose of financing non-housing, community facilities?

Response: The Conference of Mayors favors the expansion of Section 108 for the purpose of financing community facilities. With the expansion of the program to more



than \$2 billion a year, the resources are certainly available to conduct non-housing, community facilities. Moreover, this would offer more flexibility in the use of the program.

5. In your testimony you have noted HUD's interpretation of statutory provisions concerning match. Can you give us other examples of regulatory "over interpretation" -- not now but in writing, so that if necessary we can reaffirm Congressional intent?

Response: With the publishing of the Fifth Interim Rule on HOME and passage of the recent housing bill which made the match universal at 25%, most of the earlier "over interpretation" by HUD has been cleaned up. We believe that there are other possible creative uses that can be made with HOME that may in the future require statutory provisions. But, in general, we believe that HOME is operating as it was intended as can be seen in the dramatic increase in the commitment of funds by state and local governments over the last several months.



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## **STATEMENT OF EDDIE BLANKENSHIP**

### **COUNCIL PRESIDENT, BIRMINGHAM, ALABAMA**

**on behalf of**

### **THE NATIONAL LEAGUE OF CITIES**

**on the**

### **HOME AND THE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAMS**

**before the**

### **HOUSE SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT**

### **U.S. HOUSE OF REPRESENTATIVES**

**MARCH 16, 1994**

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Revised Paper

GOOD MORNING, MR. CHAIRMAN AND MEMBERS OF THE HOUSE SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT. MY NAME IS EDDIE BLANKENSHIP AND I AM THE COUNCIL PRESIDENT OF THE CITY OF BIRMINGHAM, ALABAMA. I AM HERE TODAY IN MY CAPACITY AS CHAIRMAN OF THE NATIONAL LEAGUE OF CITIES' COMMUNITY AND ECONOMIC DEVELOPMENT (CED) POLICY COMMITTEE.

THE NATIONAL LEAGUE OF CITIES REPRESENTS MORE THAN 17,000 CITIES NATIONWIDE. THE CED POLICY COMMITTEE IS COMPRISED OF 200 MAYORS AND COUNCILMEMBERS FROM 49 STATES REPRESENTING CITIES AND TOWNS OF ALL SIZES. THE COMMITTEE IS RESPONSIBLE FOR REVIEWING FEDERAL ISSUES IN THE AREAS OF HOUSING, COMMUNITY AND ECONOMIC DEVELOPMENT, HOMELESSNESS AND LAND USE POLICIES TO DETERMINE THEIR IMPACT ON LOCAL GOVERNMENTS.

ON BEHALF OF THE MEMBERS OF THE CED POLICY COMMITTEE, I WANT TO THANK YOU FOR PROVIDING NLC WITH THE OPPORTUNITY TO APPEAR BEFORE YOU TODAY AND OFFER OUR VIEWS ON THE COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) AND THE HOME STATE AND LOCAL BLOCK GRANT PROGRAMS.

#### SUMMARY

MR. CHAIRMAN, WE JUST COMPLETED OUR CONGRESSIONAL CITY CONFERENCE WHERE WE ADOPTED AN ACTION AGENDA FOR CITIES FOR 1994. OUR THIRD HIGHEST PRIORITY IS ACTION TO RESTORE LOCAL ECONOMIES.

IN THE MIDST OF STRONG ATONAL ECONOMIC RECOVERY, LOCAL ECONOMIES

HAVE BEEN LET BEHIND. THERE ARE MORE LAYOFFS OCCURRING NOW THAN DURING THE DEPRESSION BY MAJOR CORPORATIONS. THE PRESIDENT'S ECONOMIC REPORT ISSUED LAST MONTH DEMONSTRATES THAT DISPARITIES BETWEEN CITIES AND FAMILIES CONTINUE TO GROW. THEREFORE, WE BELIEVE WITH YOUR LEADERSHIP THAT PROMPT ACTION TO REAUTHORIZE AND FULLY FUND THE NATION'S HOUSING AND COMMUNITY DEVELOPMENT LAWS ARE CRITICAL.

THE ROAD TO RECOVERY IS UNEVEN. IT IS NOT LIKE ANY ECONOMIC RECOVERY THIS NATION HAS EVER EXPERIENCED. THE DISPARITIES BETWEEN RICH AND POOR CITIES AND RICH AND POOR FAMILIES CONTINUE TO GROW. DESPITE THE RECOVERY, HOWEVER, JOB LOSSES CONTINUE. IN 1989, BIG COMPANIES LAID OFF OVER 100,000 WORKERS. LAST YEAR, THEY LAID OFF 615,000 WORKERS. AND LAST JANUARY, NEARLY 110,000 LOST THEIR JOBS. THAT WAS AS MANY, IN A MONTH THAT INDICATED SIGNS OF A STRONG RECOVERY, AS LOST THEIR JOBS IN THE ENTIRE RECESSION YEAR OF 1989.

TOO MANY OF THESE JOBS ARE GONE FOREVER -- LEAVING A TRAIL OF HOPELESSNESS, ANGER, AND FRUSTRATION. THE FEAR OF LOSING A JOB AND HEALTH CARE BENEFITS FOR ONE'S FAMILY CREATES DARK HOLES IN LOCAL ECONOMIES.

IN THE TELEPHONE BUSINESS ALONE, THE LONG DISTANCE PHONE COMPANIES HAVE LAID OFF NEARLY 100,000 EMPLOYEES IN CITIES OVER THE LAST YEAR -- DESPITE SURGING PROFITS IN THE INFORMATION SUPERHIGHWAY. THAT HIGHWAY WILL RADICALLY ALTER TRADITIONAL



AMERICAN METHODS OF SHOPPING, COMMUTING AND COMMERCIAL INVESTMENT WITH SERIOUS IMPLICATIONS FOR SALES AND PROPERTY TAX REVENUES AT THE STATE AND LOCAL LEVEL.

OUR MEMBERSHIP BELIEVES WE HAVE A JOINT RESPONSIBILITY TO HELP BRING BACK LOCAL ECONOMIES AND TO ASSURE THEIR STRENGTH IN AN AGE WHERE NAFTA AND GATT ARE PITTING LOCAL ECONOMIES AGAINST THOSE NATIONS ON THE PACIFIC RIM AND IN EUROPE.

#### STRENGTHENING OUR LOCAL ECONOMIES

LOCAL ECONOMIC OPPORTUNITIES ARE THE KEY TO THE FUTURE: JOBS, PUBLIC SAFETY, ADEQUATE INCOMES, AFFORDABLE PRIORITIZED FEDERAL REQUIREMENTS THAT BEAR A VALID RELATIONSHIP TO THE REAL PROBLEMS FACING A CITY OR TOWN.

BY INVESTING IN ECONOMIC DEVELOPMENT AND BUSINESS RETENTION, AND LOOKING BEYOND OUR OWN BORDERS TO OTHER COUNTRIES THAT ARE EAGER TO BUY AND SELL OUR PRODUCTS, LOCAL ECONOMIES CAN PROSPER NOW, AND IN THE FAST-APPROACHING NEXT CENTURY.

LONG TERM ECONOMIC GROWTH IS CENTRAL TO ALMOST ALL OUR MAJOR CONCERNS AS A SOCIETY. IT WILL REQUIRE PUBLIC AND PRIVATE INVESTMENT IN INFRASTRUCTURE, HUMAN CAPITAL, AND TECHNOLOGY. THOSE ARE ESSENTIAL INVESTMENTS TO PRODUCTIVITY.

PRESENTLY, U.S. INVESTMENT STANDS AT ITS LOWEST LEVEL IN THREE

DECADES. DURING THE LAST TWO DECADES, GROWTH IN AMERICAN PRODUCTIVITY HAS SLOWED SUBSTANTIALLY. IT IS TIME TO REVERSE THE DISINVESTMENT IN CITIES AND TOWNS AND BEGIN A PROCESS OF HUMAN AND CAPITAL INVESTMENT.

TO MAKE A DIFFERENCE, MR. CHAIRMAN, WE URGE YOU TO:

- REAUTHORIZE AND FULLY FUND THE COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) AND HOME STATE AND LOCAL BLOCK GRANT PROGRAMS;
- CONSIDER INITIATING LEGISLATION TO MAKE SURE THAT SECURITIES AND FINANCIAL INSTITUTIONS REINVEST A PORTION OF LOCAL DEPOSITS AND INVESTMENTS IN OUR OWN LOCAL ECONOMIES; AND
- RESTRUCTURE OUR FEDERAL BUDGET TO STOP THE UNLIMITED GROWTH IN TAX AND ENTITLEMENT PROGRAMS IN ORDER TO INSURE INVESTMENT IN THE HUMAN AND CAPITAL NEEDS CRITICAL TO THE FUTURE OF LOCAL ECONOMIES.

COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG)

MR. CHAIRMAN, LET ME REITERATE WHAT HAS BEEN WELL DOCUMENTED BEFORE THIS SUBCOMMITTEE, THE NATIONAL LEAGUE OF CITIES STRONGLY SUPPORTS THE COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) PROGRAM AND OPPOSES ANY EFFORTS TO REDUCE ITS FUNDING LEVEL BELOW THE \$4.4 BILLION APPROPRIATED IN 1994.

AS YOU KNOW, THIS YEAR WE ARE CELEBRATING THE 20TH ANNIVERSARY OF THE CDBG PROGRAM. NO OTHER PROGRAM IN THIS COMMITTEE'S JURISDICTION ENJOYS THE LEVEL OF RESPECT AND SUPPORT WITHIN CONGRESS LIKE CDBG. THE CDBG PROGRAM HAS PROVEN TO BE AN EFFICIENT, COST EFFECTIVE PROGRAM, FREE OF SCANDAL. CDBG BENEFITS LOW AND MODERATE INCOME HOUSEHOLDS AND OFFERS LOCAL COMMUNITIES THE OPPORTUNITY TO TAILOR THEIR EFFORTS TO MEET LOCAL NEEDS. THE ONLY PROGRAM THAT CAN BOAST OF A SIMILAR LEVEL OF CREDIBILITY IS THE HEAD START PROGRAM.

LAST YEAR, THE CDBG PROGRAM CAME UNDER ATTACK AS A "PORK BARREL" PROGRAM THAT RECEIVED EXCESSIVE FUNDS WITH LITTLE TANGIBLE RESULTS. THERE ALSO CONTINUES TO BE SOME MEMBERS OF CONGRESS WHO WOULD LIKE TO CUT THE CDBG PROGRAM IN THE INTEREST OF DEFICIT REDUCTION AND DISASTER ASSISTANCE TO NAME A FEW. RECENTLY, DURING THE BUDGET DEBATE, SOME MEMBERS OF CONGRESS WERE CONSIDERING A SUBSTITUTE BUDGET ITEMS BY REPS. DAN SCHAEFER (R-CO), AND TIM PENNY (DFL-MN) THAT WOULD HAVE COMPLETELY ELIMINATED THE CDBG PROGRAM.

LET ME BE ON RECORD AS SAYING THAT CUTTING CDBG WILL SIGNIFICANTLY DAMAGE LOCAL EFFORTS TO REVITALIZE COMMUNITIES. IN FACT, MAINTAINING CDBG AT THE 1994 LEVEL OF \$4.4. BILLION IS A THREE AND A HALF PERCENT CUT IN REAL DOLLARS. AS A RESULT, CDBG FUNDING AT 1994 LEVELS WILL NOT GO AS FAR IN 1995. THIS WILL PUT ADDED PRESSURE ON LOCAL COMMUNITIES TO DO MORE WITH LESS.

MR. CHAIRMAN, I WOULD ENCOURAGE YOURSELF, THE OTHER MEMBERS OF THIS SUBCOMMITTEE AND OTHER MEMBERS OF CONGRESS TO PARTICIPATE WITH THEIR LOCAL COMMUNITIES IN THE CELEBRATION OF THE 20TH ANNIVERSARY OF CDBG DURING THE NATIONAL COMMUNITY DEVELOPMENT WEEK HELD FROM MARCH 28 TO APRIL 3RD. THIS WILL ALLOW EVERYONE THE OPPORTUNITY TO SEE FIRST HAND WHAT CDBG IS DOING IN THEIR RESPECTIVE COMMUNITIES.

I HAVE ENCLOSED A COPY OF AN ARTICLE THAT APPEARED IN NLC'S PUBLICATION, NATION'S CITY WEEKLY, THAT DESCRIBES A BRIEF HISTORY OF THE PROGRAM. MORE IMPORTANTLY, THE ARTICLE PROVIDES EXAMPLES OF WHAT COMMUNITIES ARE DOING WITH THEIR CDBG FUNDS. I ENCOURAGE COMMITTEE MEMBERS TO DUPLICATE IT AND SHARE WITH OTHER MEMBERS OF CONGRESS NOT ON THIS SUBCOMMITTEE AND WHO ARE UNFAMILIAR WITH THE SUCCESSES THAT HAVE RESULTED FROM THIS PROGRAM.

IN BIRMINGHAM, WE HAVE USED OUR CDBG FUNDS TO FOSTER NEIGHBORHOOD STABILITY, TO PROVIDE INFRASTRUCTURE IMPROVEMENTS AND HOUSING REHABILITATION, TO ENCOURAGE BUSINESS DEVELOPMENT AND JOBS, AND TO INCREASE HOUSING PRODUCTION AND HOME OWNERSHIP FOR FAMILIES AT ALL INCOME LEVELS.

THE HOME PROGRAM

MR. CHAIRMAN, LET ME SAY VERY SIMPLY: HOME IS WORKING. COMMUNITIES THROUGHOUT THE COUNTRY ARE USING HOME FUNDS AS THEY WERE INTENDED TO BE USED -- TO MEET THE NEEDS OF LOW AND MODERATE



INCOME HOUSEHOLDS THROUGHOUT THE COUNTRY.

THE 1990 PASSAGE OF THE NATIONAL AFFORDABLE HOUSING ACT (NAHA) GENERATED A GREAT DEAL OF EXCITEMENT AMONGST LOCAL ELECTED OFFICIALS. NAHA OFFERED A NEW APPROACH TO PRODUCING AFFORDABLE HOUSING BY CREATING THE HOME PARTNERSHIP INVESTMENT PROGRAM (HOME). MODELED AFTER THE CDBG PROGRAM, HOME PROVIDES HOUSING FUNDS DIRECTLY TO LOCAL COMMUNITIES WITH THE FLEXIBILITY TO ENSURE THE PARTICULAR NEEDS OF LOCAL COMMUNITIES ARE MET.

HOME REPRESENTS A FEDERAL COMMITMENT TO THE INVESTMENT OF NEW FEDERAL FUNDS INTO AFFORDABLE HOUSING INITIATIVES FOR THE FIRST TIME IN MORE THAN TEN YEARS. THE 1992 AMENDMENTS ARE ANOTHER EXAMPLE OF CONGRESS' COMMITMENT TO AFFORDABLE HOUSING. THOSE AMENDMENTS HAVE GONE A LONG WAY IN SIMPLIFYING THE IMPLEMENTATION OF THE HOME PROGRAM AND, FOR THAT, I WOULD LIKE TO THANK THE SUBCOMMITTEE FOR ITS LEADERSHIP IN THIS AREA.

THE NATIONAL LEAGUE OF CITIES SUPPORTS YOUR LEGISLATION H.R. 3838, THE HOUSING AND COMMUNITY DEVELOPMENT ACT OF 1994 BECAUSE IT CONTAINS MANY OF THE PROVISIONS WE WOULD LIKE TO SEE IN A REAUTHORIZATION BILL INCLUDING A MULTI-YEAR REAUTHORIZATION FOR HOME AND CDBG.

BUT MORE IMPORTANTLY IT CONTAINS PROVISIONS THAT WILL HELP MAKE HOME WORK MORE EFFICIENTLY. THESE INCLUDE A FLAT MATCH REQUIREMENT OF 25 PERCENT FOR PARTICIPATION IN THE HOME PROGRAM;

A SIMPLIFICATION OF THE INCOME TARGETING REQUIREMENT WITHIN HOME; AND, THE USE OF COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) FUNDS FOR HOME PROGRAM EXPENSES.

WE DO URGE, MR. CHAIRMAN, THAT AS YOU DELIBERATE ON THIS LEGISLATION THAT YOU INCLUDE THE ELIMINATION OF THE PROVISION WHICH REDUCES THE LOCAL PARTICIPATION THRESHOLD TO \$335,000 WHEN APPROPRIATIONS FALLS BELOW \$1.5 BILLION. WE SUGGEST YOU KEEP THE THRESHOLD AT \$500,000 AND HOLD HARMLESS THOSE COMMUNITIES ALREADY DESIGNATED AS PARTICIPATING JURISDICTIONS. THIS WOULD ELIMINATE THE FLUCTUATION IN THE NUMBERS OF PARTICIPATING JURISDICTIONS AND WOULD MAINTAIN CONSISTENCY IN THE PROGRAM.

WE ON THE LOCAL LEVEL HAVE TRIED TO REPAY THAT COMMITMENT BY DILIGENTLY WORKING TO FULFILL THE PURPOSES OF THE ACT.

FOR EXAMPLE:

THE CITY OF ALBUQUERQUE, NEW MEXICO HAS USED ITS HOME FUNDS FOR INCREASING THE SUPPLY OF, AND MAINTAINING THE QUALITY OF AFFORDABLE RENTAL HOUSING; PRESERVING THE QUALITY OF OWNER OCCUPIED HOUSING; INCREASING THE SUPPLY OF RENTAL HOUSING FOR ELDERLY AND THE DISABLED; AND INCREASING HOME OWNERSHIP OPPORTUNITIES THROUGH FIRST TIME HOME BUYER PROGRAMS.

THE CITY OF FARMINGTON, NEW MEXICO USED ITS HOME FUNDS FOR HOUSING REHABILITATION AND RENTAL PRODUCTION.

THE CITY OF LAKEWOOD, OHIO, AS PART OF THE CUYAHOGA HOUSING CONSORTIUM IS USING ITS HOME FUNDS FOR A FIRST-TIME HOME BUYER PROGRAM.

THE CITY OF RALEIGH, NORTH CAROLINA, HAS USED ITS HOME FUNDS FOR REHABILITATION OF OWNER OCCUPIED DWELLINGS, THE ACQUISITION AND REHABILITATION OF EXISTING UNITS FOR LOW INCOME HOUSEHOLDS, AND THE PURCHASING AND REHABILITATION OF VACANT AND ABANDONED HOUSING FOR SINGLE-FAMILY HOME OWNERSHIP.

THE CITY OF FORT WORTH, TEXAS, IS USING ITS HOME FUNDS FOR THE ACQUISITION, REHABILITATION AND RESALE OF HOMES FOR FIRST-TIME HOME BUYERS IN CONJUNCTION WITH COMMUNITY HOUSING DEVELOPMENT ORGANIZATIONS (CHDOS).

THE CITY OF CAMBRIDGE, MASSACHUSETTS, IS UTILIZING ITS FUNDS WITH CHDOS AS WELL FOR REHABILITATION AND HOME OWNERSHIP PROJECTS.

KANSAS CITY, MISSOURI USES ITS HOME FUNDS TO SUBSIDIZE MORTGAGES FOR HOUSEHOLDS AT 80 PERCENT BELOW AREA MEDIUM.

NORTH LAS VEGAS, NEVADA USES ITS HOME FUNDS TO REHABILITATE HOMES FOR SENIOR CITIZENS, FEMALE HEADS OF HOUSEHOLDS AND TRADITIONAL FAMILIES AND TO REHABILITATE RENTAL UNITS FOR HOUSEHOLDS AT 60 PERCENT BELOW AREA MEDIAN. THE CITY WILL USE SOME OF ITS HOME FUNDS TO PROVIDE DOWN PAYMENT ASSISTANCE FOR LOW INCOME FAMILIES WISHING TO PURCHASE HOMES. THE CITY IS CURRENTLY MEETING WITH

LOCAL BANKS TO DEVELOP A FIRST-TIME HOME BUYER PROGRAM THAT IS PROJECTED TO LEVERAGE BETWEEN \$1.4 MILLION TO \$1.6 MILLION IN MORTGAGE FUNDS FOR LOW INCOME FAMILIES.

SUNNYVALE, CALIFORNIA HAS USED ITS HOME FUNDS FOR A NEW 123-UNIT SINGLE ROOM OCCUPANCY DEVELOPMENT FOR SENIOR CITIZENS AND SINGLE PARENTS.

MACON, GEORGIA IS USING ITS HOME FUNDS FOR A FIRST TIME HOME BUYERS PROGRAM.

THESE ARE JUST SOME OF THE EXAMPLES OF WHAT HOME IS DOING IN COMMUNITIES THROUGHOUT THE COUNTRY. THESE EXAMPLES UNDERScore WHAT WE SAID PRIOR TO HOME'S ENACTMENT: PROVIDE US WITH THE RESOURCES AND THE FLEXIBILITY TO TAILOR PROGRAMS TO MEET LOCAL NEEDS AND WE WILL PRODUCE AFFORDABLE HOUSING.

IT IS IMPERATIVE, MR. CHAIRMAN, THAT THIS SUBCOMMITTEE IMPRESS UPON HUD TO REVISE ITS DEFINITION OF COMMITMENT UNDER THE HOME PROGRAM TO ENSURE THE FUTURE SUCCESS OF THE PROGRAM. CURRENTLY HUD'S DEFINITION OF COMMITMENT FAILS TO RECOGNIZE THE LEGALLY BINDING AGREEMENTS LOCAL GOVERNMENTS HAVE SIGNED WITH PROJECT SPONSORS. PERMANENTLY REVISING THIS DEFINITION TO REFLECT THAT A LEGALLY BINDING DOCUMENT REFLECTS A "COMMITMENT" ON THE PART OF A PARTICIPATING JURISDICTION, WILL RECOGNIZE THE REALITY OF LOCAL COMMUNITY DEVELOPMENT AND NOT PENALIZE COMMUNITIES.



IN CLOSING, LET ME EXPRESS CONCERN, MR. CHAIRMAN, ABOUT THE ADMINISTRATION'S PROPOSED BUDGET WHICH SEEKS TO REDIRECT FUNDS FROM EXISTING PROGRAMS FOR "NEW" INITIATIVES AND PRIORITIES. WHILE WE SUPPORT THE ADMINISTRATION'S INTENT, IT IS OUR HOPE THAT THE SUBCOMMITTEE WILL NOT ALLOW PROGRAMS LIKE CDBG, HOME AND PUBLIC HOUSING MODERNIZATION BECOME VICTIMS OF BUDGET "GIMMICKS". EACH OF THESE PROGRAMS ARE ESSENTIAL TO PROVIDING AFFORDABLE HOUSING TO LOW AND MODERATE INCOME RESIDENTS IN OUR NATION'S CITIES AND TOWNS.

# How CDBG Is Working To Improve America's Communities

## San Francisco

San Francisco (Pop. 723,959) uses some of its CDBG funds for Renaissance Micro Business Incubator (MBI) program designed to foster and support self sufficiency for low and moderate income minorities and women. A combined total of \$77,000 in CDBG funds for FY 92 and FY 93 has leveraged \$102,000 for this program.

The MBI program provides low cost office space, office support services and intensive business management assistance to stimulate the growth of small businesses for the targeted population. Participants are expected to stay an average of two years and then be able to "hatch" out of the incubator. The goal of the Renaissance MBI is both to enhance the self sufficiency of families through self employment and asset development and also to create jobs for community residents.

The project has exceeded expectations and is now tripling its size—from 5 to 15 tenants. In five years, the MBI served 15 businesses: 50 percent minority-owned, 50 percent owned by women. Forty jobs were created for San Francisco residents, including the owners.

## Boston

The City of Boston's (pop. 574,283) Public Facilities Department (PFD) participates in its Ten Most Wanted Drug Dens program. Created in 1991, the Ten Most Wanted Drug Dens program is a multi-government agency initiative which identifies buildings in the city of Boston where illegal drugs are being distributed.

The program involves the effort of 13 city and federal agencies working together to free a neighborhood of drug activity. Primary members of the task force include the U.S. Attorney's Office, the Boston Police Department, the Boston Police Drug Control Unit, the city of Boston Inspectional Services Department, and the Mayor's Office of Neighborhood Services.

Neighborhood Crimewatch groups are also key to the success of the operation.

The strategies used by the Ten Most Wanted Task Force include tenant evictions, housing court remedies, expedited tax foreclosure, or seizure by the federal government. No strategy is the same, each drug den that is shut down is subject to a specific plan. Property obtained by the city through foreclosure or seizure may be re-routed to the PFD for redevelopment. By committing a total of \$1.6 million in CDBG funds to this effort, PFD is able to return former drug dens to productive use with acquisition and rehabilitation funds, design and construction management, technical assistance, project management and marketing services.

Since its inception, the program has closed 44 drug buildings, seized and forfeited 27 buildings and demolished one drug building.

## Long Beach

The Neighborhood Improvement Toolbox in Long Beach, Calif. (pop. 429,433) concept was developed in response to the need for improved outreach to Long Beach residents most in need of currently available federally funded neighborhood improvement programs. These programs are designed specifically to improve housing conditions for low-income residents in severely deteriorated neighborhoods as well as neighborhoods sliding into similarly profound deterioration.

Previous outreach materials were successful in reaching literate English-speaking property owners and tenants. However they were less successful in reaching the poorly educated and those speaking little or no English. Long Beach has a sizable population of Latinos and Southeast Asians; with the largest concentration of Cambodians outside of Phnom Penh, many of whom have little formal education or English fluency.

An Hispanic-American graduate art student from California State University at Long Beach designed a new marketing instrument as part of his course work: the "Toolbox."

The Toolbox is a briefcase design with punchout handles which opens up to a pop-up house in need of repairs. On either side of the house are inserts of tool-and materials-shaped pullouts (a dumpster, paint can, cutting saw, spray can, potted plant, deadbolt lock, etc.) on which are printed brief descriptions of the relevant program and phone number. The exterior of the briefcase is a wood grain design, with three "little workman" Neighborhood

Improvement logos encircled respectively in English, Spanish and Khmer by the words "City of Long Beach Neighborhood Improvement."

The marketing tool was reviewed by a cross-section of persons representing the target audience and the response indicated that the marketing piece produced the desired result.

The Toolbox prototype was introduced at the city's annual National Community Development Week Breakfast a year ago. They are now being disseminated to the target public through community meetings (neighborhood volunteer and business and professional groups), Neighborhood Watch meetings, safety fairs, group mailings to new low-income target areas, and personal handout by Spanish speaking and Khmer speaking community outreach staff.

The "little workman" logo has been so well received that it's been adopted for use on all program flyers and other marketing materials (buttons, pins, rulers, litter bags, magnets) used by the Neighborhood Improvement Division.

A total of 10,000 toolboxes—5,000 English; 3,000 Spanish; and 2,000 Khmer have been produced with the graphics designer, printing, and assembly costing \$34,000.

## Rochester

The city of Rochester, N.Y. (pop. 231,636) devised a comprehensive strategy to reduce the number of vacant residential properties; which at the same time will strengthen residential neighborhoods, provide homeownership opportunities for low and moderate income households and provide high quality rental units for those with very low incomes.

Rochester's Housing Occupancy Initiative was formally adopted by City Council in May 1993 as an element of the FY 1993 Community Development Program Plan/CDBG Final Statement. The initiative is a multifaceted \$18 million program of public and private investment which has four primary components:

**Acquisition and Rehabilitation:** Acquire and rehabilitate 80 single and two family homes for resale to owner-occupants.

**Home Replacement:** Demolish 125 dilapidated residential structures and construct 75 single and two-family homes as replacement units.

**Home Reoccupation:** Induce the owners of 100 vacant residential properties to sell to low and moderate income homebuyers or rehabilitate their properties and place them back into occupancy.

**Homebuyer Assistance:** Provides a system of financial assistance and counseling to the purchasers of once-vacant, rehabilitated homes and newly constructed houses.

In its first year, the Housing Occupancy Initiative is expected to provide 206 homeownership opportunities for low and moderate income buyers. These homeownership efforts will target those with incomes from 60 to 100 percent of the MSA median family income (MFI). In addition, up to 135 rental units will be developed to serve households at 60 percent or less of MFI.

The city, in cooperation with the Greater Rochester Housing Partnership and experienced not-for-profit developers, has devised an Integrated Affordable Housing Delivery System to insure that the development capacity will exist to produce the housing units.

## Orem

Kids on the Move, INC. (KOTM) in Orem, Utah (pop. 67,561) is a family focused, early intervention program. The mission is to serve families who have infants and toddlers with disabilities or delays. The program offers services in the home or at the center. In order to qualify for services a child must show a mild delay in three areas of development, a moderate delay in two areas, or a severe delay in one area. The areas of development are: receptive or expressive language, fine or gross motor, personal-social, self-help or cognitive.

The goals of early intervention are the following:

- To intervene during the critical development years from birth to age six of a child in preventing the effects of handicapping conditions that might manifest themselves in a child's development in later childhood.

- To help handicapped children reach their full potential; and

- To provide support and guidance for parents of handicapped children enabling them to help facilitate and better cope with their child's development.

An infant who is placed in an institution will cost tax payers about \$35,000 per year. Current early intervention funding to Kids on the Move averages approximately \$1,700 per infant per year.

The Orem Community Development Block Grant (CDBG)

awarded \$100,000 to help launch a fund raising program to build a permanent home for KOTM. Subsequently, CDBG has given \$27,000 for the finalization of the building and continues to support this exemplary program with operational costs annually. Because of this initial CDBG funding, KOTM has been able to, in a sense, wean itself of CDBG assistance—which is the ultimate goal.

Any family with a handicapped child is served. Currently, technical assistance is being given to beginning and early intervention projects in Mexico, Costa Rica, and Albania. The primary goal is to be a support to families within their own communities, developing public awareness and expanding resources to benefit the least and most vulnerable member.

## Fort Wayne

The city of Fort Wayne, Ind. (pop. 173,072), using CDBG funds, purchases severely deteriorated houses and donates them to Lincoln Life: Improved Housing (LLIH). Lincoln Life Improved Housing rehabilitates the home at a cost of approximately \$42,000 and provides two full time staff to administer the program, supervise rehabilitation and assist the participant families. Local lenders (Fort Wayne National Bank, NBD Bank, Norwest and Home Loan Bank) place a mortgage equal to one-half of the rehabilitation cost of the property; Lincoln National Corporation donates the other half. Many local contractors donate their services in order to reduce the cost of renovation. Per unit, the average cost breakdown is \$2,200 in CDBG funds, \$21,000 from Lincoln National Corporation (includes some in-kind donations from contractors) and \$21,000 mortgage placed by lender, making the total per unit acquisition and rehabilitation cost \$44,200.

Since 1973, Lincoln Life Improved Housing, Inc. has assisted more than 200 low and moderate income families purchase renovated, energy-efficient homes. Most of the families assisted are headed by single female parents with children who, without the assistance of this program, would probably not be able to purchase a home. Roughly 90 percent of the participant families are African American. LLIH also provides a full-time family counselor as well as a maintenance supervisor to provide technical assistance on home repairs.

## Salinas

Salinas, Kans. (pop. 108,777) developed the idea of the Breadbox Recreation Center as a result of increasing gang violence in the East Salinas area.

The Center was conceived using a new concept called Community Oriented Public Service (C.O.P.S.). This COPS philosophy is based on the concept that public employees and private citizens working together in creative ways can help solve contemporary community problems. The philosophy is

predicted on the belief that achieving these goals requires that cities develop a new relationship with the citizens in the community, allowing them a greater voice in setting local priorities and involving them in efforts to improve the overall quality of life in the city. It shifts the focus of the city effort from reacting to requests for assistance to one of solving community problems through participative management — a visionary leadership from all involved in the COPS process.

The community's care and interest in the "at risk" youth was shown through many donations of volunteer labor, approximately 1,000 hours, to renovate

the 14,500 sq. ft. facility into the recreation center and by donation of equipment to the center. Such as materials needed to construct and re-model the facility, along with weight equipment, exercise equipment, a pool table, and game equipment. The volunteer labor and donated materials and equipment was estimated to be worth \$300,000. Additionally, money in the amount of \$33,000 was donated to pay for construction materials and equipment/supplies needed for the facility.

The Breadbox offers a place for all ages to come and take part in constructive recreation programs. It also has office space for two "Partner" organizations, Second Chance Youth Program, funded in part with CDBG monies, and the Salinas Police Activities League. Second Chance is a program for "at risk" youth and young adults which includes street-reach, parental and neighborhood workshops, in-home service, job placement, wilderness adventure excursions, an educational anti-gang curriculum, a mentor program, a diversion program, parents in control and community coordination. Providing an alternative to gang involvement, Second Chance indicated the number of gangs has gone from 22 in 1989 to 15 in 1992.

The Salinas Police Activities League was organized to provide common meeting ground for police officers, citizens and the youth of Salinas in the area of sports and supervised amateur athletic competition, and thereby to foster and encourage youth faith in American principles and in the traditions of sportsmanship, good will and friendship.

## Pinellas Park

The Bayou Courtyard Apartments at Byars Landing in Pinellas Park, Fla. (pop. 43,426) is an innovative multipurpose complex that services the special housing needs of deaf persons. It was established by the Friends of the Deaf Service Center, Inc., a community-based nonprofit organization, utilizing a creative mix of incentives provided through the Community Development Block Grant (CDBG) and the Resolution Trust Corporation (RTC). The complex includes 52 one-bedroom units equipped with visual signalling devices, telecommunication devices, telecaption decoders, and infrared personal listening systems. This complex, formerly an underutilized, poorly sited Days Inn Suite Motel, now includes full service commercial catering, banquet, wedding and conference facilities which will provide an estimated \$48,000 annually toward the nonprofit's ongoing operating expenses.

In Pinellas County, with a population of 850,000, there are over 100,000 hearing impaired residents of which approximately 20,000 are profoundly deaf. This is due in part to the large elderly population and having two VA hospitals in the Tampa Bay area.

At this facility sign language is the norm, providing residents with a network so they can comfortably communicate. The Bayou Courtyard Apartments provide basic devices for a safe environment for deaf individuals, such as telephone signalers, smoke detectors, other emergency devices, and door bells which flash certain lamps rather than ring and devices with lamps or strobe lights with a specified pattern.

Bayou Courtyard Apartments provides 52 one-bedroom units at rents affordable to households earning less than 80 percent of the area's median income. Typically, due to their disability, the deaf hold lower paying jobs. Rents are below market at \$350 per month including utilities. The residents will be able to access a variety of specialized services already provided by the nonprofit on site.

Rehabilitation of the units was completed in August 1993. As of December 21, 1993, 26 of the 52 of the units have been occupied. This is a 50 percent lease up in the first 45 days and has exceeded expectations. The units are expected to be fully occupied well in advance of the 12-month projection. One of the goals was to secure RTC and Government owned properties to increase the supply of affordable housing. A total of \$180,000 in CDBG funds has been used for the initiative.

## Shreveport

The "Paint Your Heart Out Shreveport" program in Shreveport, La. (pop. 198,525) was initiated to provide much needed minor repair and painting for low-income elderly and disabled citizens of the city.

The program's concept is to spruce up these homes in one day with fresh paint and minor repairs, to improve the neighborhoods aesthetically. Additionally, homes benefit from the involvement of both the Police and Fire Departments as they install deadbolt locks and smoke detectors for residents.

During the one-day painting party in 1993, there were more than 1500 volunteers who donated some 12,750 hours in this labor of love. Approximately 1100 gallons of paint and trim were used, not just to paint seventy-six houses, but to improve the quality of living for 76 residents through a vastly improved housing environment. A total of \$179,931 in CDBG funds has been used to date. ■



March 16, 1994, hearing held by the  
Subcommittee on Housing and Community Development,  
entitled "H.R. 3838, Housing and Community  
Development Act of 1994"

QUESTIONS FROM CHAIRMAN HENRY B. GONZALEZ TO  
HONORABLE EDDIE BLANKENSHIP

1. What are your suggestions as how to promote the amount of economic development activities conduted by CDBG recipients. Will the UDAG recaptures, which may provide the Department with only \$100 million in extra funding, used in conjunction with the section 108 loan guarnatees reduce communities' reluctance to engage in economic development activities with section 108 loan guarantees.

Are local community development agencies aware of the section 108 program and its requirements? Do they have the capacity to create viable loans arrangements with other organizations or is greater technical assistacne needed to assist them? Do you fell as if HUD has the capacity to review these laon applications and make a informed judgeemnt as to whether they are worth the risk?

2. How do you feel about increasing the public servies cap in he CDBG program?

3. How do you feel about expanding the eligible activities for Section 108 loan guarantees for the purpose of financing non-housing, community facilities?

4. Many of your examples of HOME fund usage are single family programs. Now that the regulations are being eased, with the changes proposed in this year's housing legislation, and with the permanent extension of the low income housing tax credit, do you believe more communities will use HOME funds for multifamily housing? Will communities put HOME funds to acquire properties under a reformed multifamily property disposition program?

5. Can you comment on CHDO activities, their expenditure rates, and capabilities? Are participating jurisdictions still having difficulties in identifying CHDOs?

6. How often are HOME funds being used for tenant based rental assistance?

7. In your testimony you have noted HUD's interpretation of statutory provisions concerning match. Can you give us other examples of regulatory "over interpretation"--not now but in writing, so that if necessary we can reaffirm Congressional intent?



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April 4, 1994

The Honorable Henry B. Gonzalez  
Chairman  
Subcommittee on Housing and Community Development  
House Committee on Banking and Urban Affairs  
B 303 Rayburn House Office Building  
Washington, D.C. 20515

Dear Mr. Chairman:

Thank you once again for providing me the opportunity to testify before your Subcommittee on March 16. I am writing in response to the questions you raised during the hearing regarding the use of the Community Development Block Grant (CDBG) program for economic development activities, the Section 108 Loan Guarantee program, and the HOME program.

**1. What are your suggestions on how to promote the amount of economic development activities conducted by CDBG recipients?**

In canvassing our membership, we have found that the General Accounting Office (GAO) report entitled, "Community Development Block Grant Economic Development Activities Reflect Local Priorities", identified three principal issues preventing communities from using Community Development Block Grant (CDBG) and Section 108 funds for economic development purposes.

The first impediment identified was the "inconsistent interpretations of rules by HUD's headquarters and field offices". In canvassing our membership, a consistent complaint levied against HUD is the inability for local communities to get a clear explanation of the department's regulations.

This has hindered local participation in the Section 108 program and has been a particular hinderance in getting HOME started in many communities. For smaller communities, with limited staff, this is particularly frustrating. The City of College Park, Maryland, for example, decided against using their CDBG funds for economic development because of the uncertainty over what constituted an eligible activity and the heavy paperwork burden required.

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Many communities use their CDBG funds for infrastructure improvements that in turn create economic development opportunities to avoid the burdensome regulations involved. Additionally, local governments are under extreme pressure to fund other needed community activities with CDBG funds.

While job creation should be an important focus of economic development, the Subcommittee should review the viability of determining the success of CDBG-funded economic development initiatives based on the number of jobs created. The subcommittee may want to consider infrastructure improvements as an economic development activity if job creation for low and moderate income households can be demonstrated.

Davis-Bacon was the second impediment to creating economic development initiatives. Davis-Bacon simply drives up the cost of projects to the point where they are prohibitive for some communities. Davis-Bacon also presents an obstacle in utilizing minority and women-owned businesses for CDBG funded projects because of the increased administrative expenses associated with completing a project. Increasing the threshold for compliance with Davis-Bacon would make economic development activities possible for communities of all sizes.

The third issue raised as an impediment is the difficulty in using grants to retain jobs in communities. The emphasis on job creation and retention for low and moderate income people prevents communities from responding to immediate local needs. The documentation needed to justify compliance is burdensome for communities and is considered too cumbersome to entertain.

I have enclosed a list of the various activities undertaken in Birmingham for your perusal, Mr. Chairman. As you can see, much of our activity centers around housing and infrastructure improvements.

Will the UDAG recaptures, which may provide the Department with \$100 million in extra funding, used in conjunction with the Section 108 loan guarantee program, reduce communities' reluctance to engage in economic development activities with the program?

It is unclear if recapturing these funds is enough to drive down the interest rates on Section 108 loans to make them more attractive to localities. Right now, Section 108 loans are not competitive enough with market rate loans for communities to risk their future CDBG funds on guaranteeing these loans. If sufficient funds can be found in the HUD budget, not from the HOME or CDBG accounts, to drive down the Section 108 interest rates and protect a communities' future CDBG funds, then I

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believe this program would be more attractive to communities.

More importantly, HUD must provide guidance on how communities can use the 108 funds in such a way as to not jeopardize their future CDBG allocations. This is the biggest drawback of the program. Eliminating the obligation to secure the loan with future CDBG allocations would generate greater use of 108 funds.

Finally, many communities have projects that are ready to go but do not fit under the old UDAG criteria. If you redefine the eligible uses of those funds, they will be spent quickly.

Are local community development agencies aware of the Section 108 loan program and its requirements? Do they have the capacity to create viable loan arrangements with other organizations or is greater technical assistance needed to assist them? Do you feel as if HUD has the capacity to review these loan applications and make an informed judgement as to whether they are worth the risk?

Yes, community development agencies are aware of the 108 program and its requirements. As I stated in the previous answer, the structure of the 108 program makes it prohibitive for communities. I believe HUD needs to reevaluate the current program and adopt some of the changes proposed in the GAO report.

HUD should not be directly involved in technical assistance activities but should provide more examples of how other communities are using 108 funds. HUD's failure to provide proper guidance has been a hinderance; this must change. Some communities, such as Los Angeles and Kansas City, have been very successful in learning how to use these funds. Their experiences should be shared with others.

How do you feel about increasing the public services cap in the CDBG program?

NLC is on record in support of a 20 percent service cap.

How do you feel about expanding the eligible activities for the Section 108 loan guarantees for the purpose of financing non-housing, community facilities?

NLC would support an expansion of eligible activities but would do so after reaffirming the concerns we expressed in the previous questions.

Do you believe that more communities will use HOME funds for multi-family housing now that changes are being made to the HOME program?



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Yes, I believe the current changes to the HOME program will make it more attractive for communities to develop multi-family properties.

**Will communities use HOME funds to acquire properties under a reformed multifamily property disposition program?**

I believe, where it conforms with local goals and needs, yes, communities will use HOME funds to acquire properties from a reformed multifamily disposition program.

**Please comment on CHDO activities, their expenditure rates, and capabilities? Are participating jurisdictions still having difficulties in identifying CHDOs?**

I do not have numbers to verify the activities of CHDOs but municipalities continue to have problems identifying CHDOs. However, our members have found that many nonprofits do not want to restructure their board of directors to conform with the HOME program and in some cases nonprofits do not exist. It would be wise for the subcommittee to revisit the CHDO issue.

**How often are HOME funds being used for tenant-based rental assistance?**

Based on HUD figures dated February 28, 1994, three percent of HOME funds have been spent on tenant-based rental assistance.

**What are some examples of HUD's "over interpretation" of Congressional intent in the drafting and implementation of regulations pertaining to HOME?**

NLC believes HUD has not interpreted the congressional intent on the issue of commitment. Commitment should mean any legally binding contract not the actual draw down of funds. HUD has submitted language that would correct the definition of commitment for FY 1992 funds. However, these changes should be made permanent for the program. A permanent revision of the definition of commitment will recognize the reality of local community development and ensure the rapid expenditure of HOME funds.

Sincerely yours,

*Eddie Blankenship*

Eddie Blankenship, Chair  
 NLC Community and Economic Development Policy Committee  
 Council President, Birmingham, Alabama

cc: enclosure

(Mr. Blankenship)

**FINAL STATEMENT OF COMMUNITY DEVELOPMENT  
OBJECTIVES AND PROJECTED USE OF FUNDS  
CITY OF BIRMINGHAM, ALABAMA  
19TH PROGRAM YEAR  
Project No. B-93-MC-01-0002**

Pursuant to the requirements of Section 104(a)(2)(B) of the Housing and Community Development Act of 1974 as amended, the City of Birmingham, Alabama is hereby publishing a Final Statement of Community Development Objectives and Projected use of Community Development Block Grant (CDBG) Funds for the 19th year entitlement (July 1, 1993 - June 30, 1994). This final statement has been developed after giving consideration to citizen comments and proposals received at CDBG Public Hearings conducted by the City on January 28, 1993 and February 18, 1993 and from citizen comments and proposals received on or before February 18, 1993 following the publication of a "Proposed Statement of Community Development Objectives and Projected Use of Funds" in the Birmingham Post-Herald on February 9, 1993, the Birmingham News on February 11, 1993, and the Birmingham Times on February 11, 1993. The City's Community Development Objectives are to foster neighborhood stability, to utilize CDBG funds for physical improvements and housing rehabilitation, to encourage business development and jobs, and to foster increased housing production and home ownership for families at all income levels.

The projected use of funds stated herein has been developed so as to give maximum feasible priority to activities which will benefit low- and moderate-income families or aid in the prevention or elimination of slums and blight. In addition, the projected use of funds is consistent with the City's established strategy of stabilizing the City and reversing negative trends associated with urban decay and blight. The City's strategy for community development has three basic goals: 1) Rehabilitation, 2) To improve the economic life of the City by encouraging business development and jobs, and 3) To foster increased production and home ownership for families at all income levels.

**CDBG Funding Sources Available For Use:**

FY 1993 CDBG Entitlement Funding:	\$ 8,618,000.00
FY 1992 CDBG Reallocated Funding:	1,000.00
Projected FY 1993 Program Income:	<u>1,716,500.00</u>
<b>TOTAL</b>	<b>\$10,335,500.00</b>

Projected FY 1993 Program Income is anticipated to be generated from the following activities: Section 108 loan repayments \$90,000; Housing Rehab Deferred Payment loan repayments \$108,000; Housing Rehab Non-Profit Sponsor loan repayments \$55,000; Housing Rehabilitation Relocate/Rehab/Sell repayments \$490,000; Housing Rehabilitation Multi-Family loan repayments \$578,500; Housing Rehabilitation Variable loan repayments \$375,000; and, Birmingham Neighborhood Housing Services loan repayments \$20,000. Total: \$1,716,500.00.

**CDBG Program Year 19 Use of Funds:**

Under its 19th Program Year (FY 93) CDBG Entitlement of \$8,618,000 plus allocated funds from FY 92 of \$1,000 plus anticipated program income of \$1,716,500, the City of Birmingham will undertake the following activities:

ACTIVITY NAME & DESCRIPTION	IMPLEMENTING AGENCY	LOCATION(S)	FUNDING DOLLARS	REGULATORY CITES ELIG./NAT. OBJ. [24 CFR 570]
<b>I. CDBG PROGRAM ADMINISTRATION</b>				
1. Salary expenses associated with the oversight, management, monitoring, coordination of the CDBG Program	Community Development Dept.	N/A	\$1,120,000	206(a)
2. Neighborhood Communications - Funds for the cost of postage, paper, supplies and equipment to publish and mail neighborhood newsletters	Community Development Dept.	Citywide	32,400	206(b)
3. Community Resource Officer Expenses - Office supplies and equipment, mileage reimbursement, travel and other related administrative expenses	Community Development Dept.	Citywide	12,600	206(a)
4. Community Development Expenses - Office Supplies and equipment, legal advertisements, travel, publication subscriptions, printing and other related administrative expenses	Community Development Dept.	N/A	60,000	206(a)
5. Housing Expenses - Office supplies and equipment, printing, legal advertisements, travel and other related administrative expenses	Community Development Dept.	Citywide	24,000	206(a)
6. Indirect administrative costs associated with the management of the CDBG program	Community Development Dept.	N/A	250,000	206(e)

ACTIVITY NAME & DESCRIPTION	IMPLEMENTING AGENCY	LOCATION(S)	FUNDING DOLLARS	REGULATORY CITES ELIG./NAT. OBJ. [24 CFR 570]
<b>II. CDBG PLANNING &amp; MANAGEMENT</b>				
1. South Sandusky Street Improvement Master Plan: Study and development of a master plan for street improvements including storm sewers south of Pratt Highway	Engineering Dept.	Pratt Highway	\$175,000 100,000	201(c); 205(a)/208(a)
2. Other Planning & Management expenses associated with the operation of the CDBG Program including legal services	Community Development Dept.	N/A	75,000	206(a)(3)
<b>III. ANNUAL SECTION 108 LOAN PAYMENT TO HUD</b>				
<b>IV. HOUSING REHABILITATION</b>				
Applications for the following Housing Programs are accepted Monday through Friday 8:00 a.m. - 5:00 p.m., except legal holidays in the Community Development Dept. Housing Division, 710 North 20th Street, Room 700, Birmingham, AL 35203.	Community Development Dept.	N/A	\$130,000 \$5,332,500	
1. Rebate Grant Program - Provides direct grants of 20% to 50% of eligible repairs not to exceed \$5,000 to low/mod homeowners to rehabilitate single-family homes	Community Development Dept. Housing Division	Citywide	905,000	202(a), (b) and (d) 208(a)(2) and (a)(3)



ACTIVITY NAME & DESCRIPTION	IMPLEMENTING AGENCY	LOCATION(S)	FUNDING DOLLARS	REGULATORY CITES ELIG./NAT. OBJ. [24 CFR 570]
<u>Housing Rehabilitation (continued)</u>				
2. Deferred Payment Loan Program - Provides no interest loan funds to qualified low/mod income elderly (62 years old) and disabled persons.	Community Development Dept. Housing Division	Citywide	306,000	202(a), (b), and (d) 208(a)(2) and (a)(3)
3. Non-Profit Sponsor Program - Provides non-profit organizations technical assistance and loan funds with which to purchase and rehab housing units. After rehabilitation, housing units are offered for sale or rent to low/mod income persons.	Community Development Dept. Housing Division	Citywide	100,000	202(a), (b), and (d) 208(a)(2) and (a)(3)
4. Relocate/Rehab/Sell Program - Purchase of suitable vacant lots and houses from clearance areas that are in a rehabable condition. Purchased houses are relocated to available lots and sold to eligible low/mod income persons.	Community Development Dept. Housing Division	Citywide	980,000	202(a), (b), and (d) 208(a)(2) and (a)(3)

ACTIVITY NAME & DESCRIPTION	IMPLEMENTING AGENCY	LOCATION(S)	FUNDING DOLLARS	REGULATORY CITES ELIG./NAT. OBJ. [24 CFR 570]
<u>Housing Rehabilitation (continued)</u>				
5. Multi-Family Program - Provides low interest loans for multi-family structures to encourage the rehabilitation of substandard or aging housing. Maximum loans are for \$10,000 per dwelling unit or \$100,000 per project for structures with 2 to 100 units. Rents cannot exceed the fair market rent schedule for existing Section 8 housing.	Community Development Dept. Housing Division	Citywide	900,000	202(a), (b), and (d) 208(a)2, and (a)3
6. Variable Loan Program - Provide below market rate loan funds for the rehabilitation of 1 to 4 units of owner-occupied structures.	Community Development Dept. Housing Division	Citywide	750,000	202(a), (b), and (d) 208(a)(2) and (a)(3)
7. Program Costs - Salaries and program expenses associated with assisting owners, tenants, contractors, and other entities participating or seeking to participate in rehabilitation activities.	Community Development Dept. Housing Division	N/A	834,000	202(b) 208(a)(2) and (a)(3)

ACTIVITY NAME & DESCRIPTION	IMPLEMENTING AGENCY	LOCATION(S)	FUNDING DOLLARS	REGULATORY CITIES ELIG./NAT. OBJ. [24 CFR 570]
Housing Rehabilitation (continued)				
8. Mortgage Redemptions - Redemption and/or purchase of first liens on rehabilitated property in which the City holds a mortgaged interest.	Community Development Dept. Housing Division	Citywide	300,000	202(a), (b), and (d) 208(a)(2) and (a)(3)
9. Birmingham Independent Living Center - Provide assistance to qualified disabled residential tenants and disabled homeowners to enable modifications to be made to their residences. Maximum amount of assistance is \$2,500 per household. Applications are accepted Monday through Friday, 8:00 a.m. to 5:00 p.m., except holidays, at the Birmingham Independent Living Center.	Independent Living Center 3421 5th Avenue, South Birmingham, AL 35222	Citywide	42,500	202(a)(b) and (d) 208(a)(2)(i)(A)
10. Neighborhood Housing Services of Birmingham - Provide safe, sound, and sanitary affordable housing to low/mod income families. Applications are accepted Monday - Friday, 8:00 a.m. - 5:00 p.m., except holidays, at the offices of Neighborhood Housing Services of Birmingham.	Neighborhood Housing Services of Birmingham 1815 11th Avenue, South Suite 200 Birmingham, AL 35205	West End, Bush Hills, Woodlawn, Five Points South	100,000 (Revolving Loan Fund) 95,000 (Personnel)	202(a)(b) and (d) 208(a)(2) and (a)(3)

ACTIVITY NAME & DESCRIPTION	IMPLEMENTING AGENCY	LOCATION(S)	FUNDING DOLLARS	REGULATORY CITES ELIG./NAT. OBJ. [24 CFR 570]
<u>Housing Rehabilitation (continued)</u>				
11. Titusville Development Corporation - Provide safe, sound, and sanitary affordable housing to low/mod income families. Applications are accepted at the office of Titusville Development Corporation Monday - Friday, 9:00 a.m. - 5:00 p.m., except holidays at the offices of the Titusville Development Corporation.	Titusville Development Corp. 300 Kappa Avenue South Birmingham, AL 35205	Titusville Community	\$20,000	202(a)(b) and (d) 208(a)(2) and (a)(3)
<b><u>V. RELOCATION</u></b>				
1. Funds to assist low income families with relocation expenses associated with participation in the City's CDBG Housing Programs.	Community Development Dept. Housing Division	Citywide	50,000	201(c)(d) 208(a)(2) and (a)(3)
<b><u>VI. DEMOLITION</u></b>				
1. Demolition costs in support of housing and rehabilitation activities at citywide locations. Applicants will be individually qualified as low/mod income.	Community Development Dept. Housing Division	Citywide	30,000	201(c)(d) 208(a)(2) and (a)(3)



ACTIVITY NAME & DESCRIPTION	IMPLEMENTING AGENCY	LOCATION(S)	FUNDING DOLLARS	REGULATORY CITES ELIG./NAT. OBJ. [24 CFR 570]
<p><b><u>VII. ACQUISITION</u></b></p> <p>1. Expenditures will support the acquisition of real property for housing and rehabilitation activities throughout the City. Applicants will be individually qualified as low/mod income.</p>	Community Development Dept. Housing Division	Citywide	\$100,000	201(a) and (c) 208(a)(2) and (a)(3)
<p><b><u>VIII. COMMERCIAL REVITALIZATION</u></b></p> <p>1. Continuation of ongoing commercial revitalization and economic development efforts initiated in the Historic Fourth Avenue Business District through the provision of technical assistance to establishments wishing to locate in the area and coordination of public information and other activities in conjunction with the Civil Rights Institute and other area attractions. Also provide assistance in the Pratt City, Smithfield, Ensley and Norwood business districts.</p>	Urban Impact, Inc. 1620 Fourth Avenue, North Birmingham, AL 35293	Fourth Avenue Business District Downtown, Birmingham Pratt City, Smithfield, Ensley, and Norwood Business Districts	168,000	204/208(b)

ACTIVITY NAME & DESCRIPTION	IMPLEMENTING AGENCY	LOCATION(S)	FUNDING DOLLARS	REGULATORY CITES ELIG./NAT. OBJ. [24 CFR 570]
<p><u>IX. PUBLIC SERVICES</u></p> <p><u>A. Community Resources</u></p> <p>Public service duties of Community Resources Division activities to include community workshops, educational workshops, training and CAB funding.</p>	Community Resources Division	Citywide	<p>\$1,230,000</p> <p>488,000</p>	201(e)/208(a)(1)

ACTIVITY NAME & DESCRIPTION	IMPLEMENTING AGENCY	LOCATION(S)	FUNDING DOLLARS	REGULATORY CITES ELIG./NAT. OBJ. [24 CFR 570]
<b>B. Homeless Shelter Providers</b>				
1. Provide a six day week soup kitchen and an emergency shelter facility as the need arises. Proposes to feed approximately 2000 person during this program year.	Birmingham Revival Center Soup Kitchen	1522 Woodland Ave. S.W. Birmingham, AL 35211	\$371,000	201(e)/208(a)(2)
2. Provide comprehensive shelter services to homeless women and women with children. Proposes to provide service for over 289 clients during PY 19.	Bread & Roses Hospitality House	1135 14th Avenue, South (Transitional Shelter) 5325 Georgia Road (Emergency) 2313 20th Street, West (Transitional)	38,000	201(e)/208(a)(2)
3. Operate a noonday soup kitchen seven days a week; provide overnight shelter with the provision of necessary social services. Proposes to serve approximately 21,000 meals and 450 men in night shelter.	Cooperative Downtown Ministries, Inc.	Old Firehouse Shelter for Men 1501 3rd Avenue, North	36,235	201(e)/208(a)(2)
4. Provide shelter for homeless families along with necessary social services. Proposes to serve over 58 families during PY 19.	Interfaith Hospitality House, Inc.	5704 1st Avenue, North Birmingham, AL 35212 (Emergency shelter) 8408 3rd Avenue, North Birmingham, AL 35206 (Transitional shelter)	40,700	201(e)/208(a)(2)

ACTIVITY NAME & DESCRIPTION	IMPLEMENTING AGENCY	LOCATION(S)	FUNDING DOLLARS	REGULATORY CITES ELIG./NAT. OBJ. [24 CFR 570]
<u>Homeless Shelter Providers (continued)</u>				
5. Provide respite care for homeless ill patients along with medical services to clients at various local shelters. Proposes to serve over 35 different persons during PY 19 under the Respite Care Program only.	Birmingham Health Care for the Homeless	712 25th Street, North B'ham, AL 35202-1523	35,000	201(e)/208(a)(2)
6. Provide food to homeless and low/mod income individuals and families. Proposes to provide services to approximately 35,000 persons.	New Pilgrim Bread of Life Ministry, Inc.	708 Goldwire Place, S.W. Birmingham, AL 35211 1628 1st Avenue, North Birmingham, AL	20,000	201(e)/208(a)(2)
7. Provide program and facilities that address and are responsive to the personal crises and housing needs of homeless women. Propose to serve approximately 500 in the Day Program and 40 in the Transitional Program.	Birmingham PATH Program	607 21st Street, North Birmingham, AL 35203 5345 Georgia Road Birmingham, AL 35212 1221-23 Cotton Ave. S.W. Birmingham, AL 35211 1812 Princeton Ave. S.W. Birmingham, AL 35211 1625 Cleveland Ave S.W. Birmingham, AL 35211	82,000	201(e)/208(a)(2)



ACTIVITY NAME & DESCRIPTION	IMPLEMENTING AGENCY	LOCATION(S)	FUNDING DOLLARS	REGULATORY CITES ELIG./NAT. OBJ. [24 CFR 570]
<u>Homeless Shelter Providers (continued)</u>				
8. Provide a vast number of social services to homeless individuals and families. Propose to serve approximately 125 men during PY 19.	Salvation Army	2130 11th Avenue, South B'ham, AL	25,000	201(e)/208(a)(2)
9. Provide social services for homeless families and women with children. Proposes to serve approximately 25 clients during PY 19.	Southside Ministries, Inc.	1016 19th Street, South Birmingham, AL	16,065	201(e)/208(a)(2)
10. Provide housing placement and counseling for homeless clients. Proposes to serve approximately 100 clients during PY 19.	Birmingham Urban League, Inc.	1717 4th Avenue, North Birmingham, AL	20,000	201(e)/208(a)(2)
11. Provide day care services for homeless children from local shelters. Propose to serve approximately 240 clients during PY 19.	YWCA	309 North 23rd Street Birmingham, AL	25,000	201(e)/208(a)(2)

ACTIVITY NAME & DESCRIPTION	IMPLEMENTING AGENCY	LOCATION(S)	FUNDING DOLLARS	REGULATORY CITES ELIG./NAT. OBJ. [24 CFR 570]
<b>C. Other Public Services</b>				
1. Provide a community kitchen and children's tutoring and summer program for low income children in the West End area. Proposes to provide meals to approximately 20,000 individuals and services for children to approximately 35.	Urban Ministry, Inc.	1229 Cotton Avenue, S. W. Birmingham, AL 35211	\$371,000  16,800	201(e)/208(a)(1)
2. Implementation of a self-help support group and vocational rehabilitation training and referral program for approximately 40 low/mod income adults residing in the City of Birmingham diagnosed with chronic sickle cell disease.	North Central Alabama Sickle Cell Foundation, Inc. 1601 12th Avenue, South Birmingham, AL 35205	Program to be operated out of NCASCF's headquarter office located at 1601 12th Avenue, South Birmingham, AL 35205	20,000	201(e)/208(a)(2)
3. Provision of crisis intervention counseling and interviewing services for child victims of sexual abuse with the assistance of child protection professionals and law enforcement agencies, in preparation for case development and criminal prosecution of the offenders. Agency will conduct approximately 450 interviews.	The Prescott House	1730 14th Avenue, South Birmingham, AL 35205	30,000	201(e)/208(a)(2)

ACTIVITY NAME & DESCRIPTION	IMPLEMENTING AGENCY	LOCATION(S)	FUNDING DOLLARS	REGULATORY CITES ELIG./NAT. OBJ. [24 CFR 570]
<p><u>Other Public Services (continued)</u></p> <p>4. Provision of child care financial assistance to low/mod income working families residing in the City of Birmingham. Approximately 45 child care slots will be serviced during the 12 month CDBG contract period.</p> <p>5. Provide training and educational assistance (skills development, remedial instruction, literacy training, computer aided learning); career planning, job placement, family counseling, including cultural and social interaction activities for approximately 100 youth and 20 adults who are low/mod income residents of the Metropolitan Gardens Public Housing Community.</p> <p>6. Provision of technical assistance in the implementation plans for the Operation Pride West End Comprehensive Revitalization Program.</p>	<p>Childcare Resources 1904 First Avenue, North Birmingham, AL 35203-4006</p> <p>The Center for Urban Missions 1929 3rd Avenue, North Suite 700 Birmingham, AL 35203</p> <p>The University of Alabama/Birmingham Center for Urban Affairs</p>	<p>Citywide</p> <p>600 24th Street, North Birmingham, AL</p> <p>West End Community Arlington-West End NA Oakwood Place NA Rising West Princeton NA</p>	<p>\$46,500</p> <p>20,000</p> <p>30,000</p>	<p>201(e)/208(a)(2)</p> <p>201(e)/208(a)(1)</p> <p>201(e)/208(a)(1)</p>

ACTIVITY NAME & DESCRIPTION	IMPLEMENTING AGENCY	LOCATION(S)	FUNDING DOLLARS	REGULATORY CITES ELIG./NAT. OBJ. [24 CFR 570]
<p><u>Other Public Services (continued)</u></p> <p>7. A "self management and resistance" drug prevention training program targeted to children, care givers and community leaders residing in 15 low income neighborhoods of the City to reduce the problems of drug abuse, related crime and violence in high risk areas. Agency will provide a total of 1,290 hours of training in the areas of drug abuse prevention, family management, parental involvement and mobilizing community support services.</p>	<p>Aletheia House (Birmingham Drug Abuse Information Center) 3600 8th Avenue, South Birmingham, AL 35232</p>	<p>Low/Mod Income Targeted Neighborhoods: West End North Birmingham Loveman's Village (Public Housing Community) Gate City (Public Housing Community) Kingston (Public Housing Community) Smithfield Airport Ensley Pratt city Zion City Southside East Lake North Avondale Powderly Collegeville</p>	<p>\$93,000</p>	<p>201(e)/208(a)(1)</p>



ACTIVITY NAME & DESCRIPTION	IMPLEMENTING AGENCY	LOCATION(S)	FUNDING DOLLARS	REGULATORY CITES ELIG./NAT. OBJ. [24 CFR 570]
<p><u>Other Public Services (continued)</u></p> <p>8. Provision of emergency food with assistance from the United Way Food Bank and the U.S. Dept. of Agriculture to eligible low income families experiencing financial and/or family crisis. This community based volunteer operated program plans to serve approximately 500 needy families.</p> <p>9. Implementation of a "Girl Scouting in the School Day" program in conjunction with the Birmingham Public School System, to serve approximately 250 low/mod income youth who remain unserved due to income, lack of volunteer support and other barriers.</p>	<p>North Birmingham Community Assistance Program, Inc.</p> <p>The Cahaba Girl Scout Council 3600 8th Avenue, South Birmingham, AL 35222-3280</p>	<p>North Birmingham</p> <p>CDBG Income eligible youth will be enrolled at the following public schools: Inglenook Powderly Banks Powell</p>	<p>\$20,000</p> <p>14,700</p>	<p>201(e)/208(a)(2)</p> <p>201(e)/208(a)(2)</p>

ACTIVITY NAME & DESCRIPTION	IMPLEMENTING AGENCY	LOCATION(S)	FUNDING DOLLARS	REGULATORY CITES ELIG./NAT. OBJ. [24 CFR 570]
<p><u>Other Public Services (continued)</u></p> <p>10. Implementation of a homeownership opportunity program targeted to low income first time homebuyers in the City of Birmingham. Agency proposes to:</p> <ol style="list-style-type: none"> <li>1. Provide affordable housing for up to (20) families through the City's nonprofit sponsor program and the agency's line of credit with a local financial lending institution.</li> <li>2. Provide technical assistance to the Bethel Ensley Action Task (BEAT) Housing Redevelopment program in acquiring financing, and the Fountain Heights Community Development, Inc in board organization, training and the planning and development of a housing revitalization/rehabilitation program.</li> <li>3. Provide pre-post occupancy homeownership counseling services to eligible first-time homebuyers.</li> </ol>	<p>Neighborhood Services, Inc. 1250 13th Street, North Birmingham, AL 35204</p>	<p>Citywide</p>	<p>\$80,000</p>	<p>201(e) 202(a)(2) and (a)(3) 208(a)(1)</p>

ACTIVITY NAME & DESCRIPTION	IMPLEMENTING AGENCY	LOCATION(S)	FUNDING DOLLARS	REGULATORY CITES ELIG./NAT. OBJ. [24 CFR 570]
<b>X. PUBLIC WORKS</b>			<b>\$2,000,000</b>	
<b>A. Engineering/Street Projects</b>			<b>\$350,000</b>	
1. Hooper City Phase IV: Engineering design fee for continuing street improvement project including storm sewer.	Engineering Department City of Birmingham	35th Ave. W 400-600 blocks, 34th Ave. W. 400- 600 blocks, 400 block of 33rd St., a portion of 32nd Ave. W. and portions of 5th and 6th Sts.	✓ \$50,000	201(c) 208(a)(1)(i)
2. West End Ditch Phase II: Right of Way purchases for Phase II of storm drainage project	Engineering Department City of Birmingham	Jefferson Avenue from 18th Place to 17th Way	✓ \$50,000	201(c) 208(a)(1)(i)
3. Taylor Hills Phase III Street Improvements: Right of Way acquisition for continuing street improvement project	Engineering Department City of Birmingham	700-800 blocks of 47th St. South	✓ 50,000	201(c) 208(a)(1)(i)
4. First Avenue South Phase I Storm Sewer: Construction of storm sewer	Engineering Department City of Birmingham	1st Ave. South from 69th St. eastward	✓ 200,000	201(c) 208(a)(1)(i)

01219

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03219

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ACTIVITY NAME & DESCRIPTION	IMPLEMENTING AGENCY	LOCATION(S)	FUNDING DOLLARS	REGULATORY CITES ELIG./NAT. OBJ. [24 CFR 570]
<p><b>B. Park Projects</b></p> <p>1. Playground equipment for Central, Harrison, Minnieville, Hooper City and Rhodes Parks. Purchase and install miscellaneous modular playground equipment.</p> <p>2. Drainage improvements at Woodward, Cooper Green and Hooper City Parks. Rebuild low places at these parks to eliminate standing water.</p> <p>3. Property acquisition-Dolomite area. Acquire property that is contingent to USX and relevant to the Village Creek project.</p>	<p>Park &amp; Recreation Board City of Birmingham Walter Garrett 254-2848</p> <p>Park &amp; Recreation Board City of Birmingham Walter Garrett 254-2848</p> <p>Park &amp; Recreation Board City of Birmingham Walter Garrett 254-2848</p>	<p>Central Park: 4700 Terrace "Q" Ensley, Harrison Park: 1615 McMillan Avenue, S.W. Minnieville Park: Seattle Street, Wylam Hooper City Park: 3901 4th West, Hooper City Rhodes Park: Highland Ave. &amp; 28th St.</p> <p>Woodward Park: 1220 McMillan Ave. S.W. Cooper Green Park: 112 Dorothy Drive S.W. Hooper City Park: 3901 4th West, Hooper City</p> <p>Contingent to USX</p>	<p>\$1,050,000</p> <p>\$200,000</p> <p>✓450,000</p> <p>✓400,000</p>	<p>201(c) 208(a)(1)</p> <p>201(c) 208(a)(1)</p> <p>201(c) 208(a)(1)</p>

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ACTIVITY NAME & DESCRIPTION	IMPLEMENTING AGENCY	LOCATION(S)	FUNDING DOLLARS	REGULATORY CITES ELIG./NAT. OBJ. [24 CFR 570]
<b>C. Public Facilities</b>				
1. Acquisition of the Masonic Temple building for the eventual conversion to a multi-purpose community center.	City of Birmingham Community Development Department	1346 Tuscaloosa Avenue Birmingham, AL	\$600,000	202(a)(c)
<b>XL. UNPROGRAMMED FUNDS</b>	N/A	N/A	0	N/A
<b>TOTAL</b>			<b>\$10,335,500</b>	

The City anticipates that approximately 90% of available funds to be used for these activities will benefit low and moderate income persons.

The City does not expect any proposed CDBG activities to result in displacement. Should displacement occur, the City of Birmingham will provide assistance pursuant to its published Community Development Block Grant Anti-Displacement and Relocation Assistance Plan, copies of which are available in the City's Community Development Department, 10th Floor, City Hall.

The City of Birmingham, Alabama will submit this "Final Statement of Community Development Objectives and Projected Use of Funds" to the U.S. Department of Housing and Urban Development on or before May 28, 1993. The City's 19th Program Year of Entitlement will begin July 1, 1993 and will run through June 30, 1994.

James R. Land, Director  
Department of Community Development  
10th Floor City Hall  
Birmingham, Alabama 35203

June 3, 10, 1993

Dates of Publication

The Birmingham Times - Legal

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**NATIONAL  
ASSOCIATION  
of  
COUNTIES**

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*440 First St. NW, Washington, DC 20001  
202/393-6226*

Statement of the  
Honorable William E. Hanna, Jr.  
President of the Council, Montgomery County, Maryland

on the Housing and Community Development Act of 1994  
(H.R. 3838)

Before the  
Housing and Community Development Subcommittee of the  
Banking, Finance and Urban Affairs Committee  
U.S. House of Representatives

On Behalf of the  
National Association of Counties

and

National Association for County Community  
and Economic Development

March 16, 1994  
Washington, D.C.

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Mr. Chairman and Members of the Subcommittee:

My name is William E. Hanna, Jr. and I am President of the Montgomery County Council in nearby Maryland. I appear before you today on behalf of the National Association of Counties (NACo)<sup>1</sup>, for whom I serve as its Housing Subcommittee Chair. I am also here representing NACo's affiliate, the National Association for County Community and Economic Development (NACCED)<sup>2</sup>. NACo and NACCED appreciate the Subcommittee's solicitation of our views on issues relating to reauthorization of the nation's housing and community development laws.

At the outset, Mr. Chairman, we commend you for holding these timely hearings on reauthorization issues. We also commend you for introducing H.R. 3838 which reauthorizes for two years federal housing and community development programs while making a number of substantive changes therein. It certainly provides an excellent starting point for the Subcommittee's deliberations. During my testimony this morning I will provide NACo and NACCED's comments on various provisions which are currently in, or which we wish to see added during markup, to H.R.3838. We also understand that the Clinton Administration will submit its recommendations with respect to reauthorization later this month. Once we review those proposals we'll be happy to provide the Subcommittee with our views.

Mr. Chairman, as you know county governments, acting through NACo and NACCED, have assisted this Subcommittee and the Congress over the years in helping formulate the nation's housing and community development policies and programs. Our work was very much in evidence as you enacted the Housing and Community Development Act of 1974 which created the landmark CDBG program and afforded urban counties entitlement status. Urban county participation in the CDBG program has grown from 73 entitlement jurisdictions in FY 1975 to 135 today. We were also there when you and your Congressional colleagues enacted the landmark Cranston-Gonzalez National Affordable Housing Act of 1990, with its centerpiece the HOME program. Currently 89 urban counties receive HOME funds directly, while 61 consortia have been formed, all of which include counties. Both of these programs are strongly supported by the nation's counties, as they are flexible tools based on the premise that local elected officials, in concert with their affected low- and moderate-income citizens, can fashion tailored responses to their unique housing and community development problems.

This year marks the twentieth anniversary of the CDBG program. HUD Secretary Cisneros and others have pronounced it to be the nation's best federal domestic program. I heartily agree with this assessment. Congress must as well, having increased funding for the program by \$200 million, \$600 million, and \$400 million during the past three years to its current level of \$4.4 billion.

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<sup>1</sup>NACo is the only national organization representing county government in the United States. Its goals are to improve county government, act as liaison with other levels of government, present the county position on national issues and advance public understanding of the role of counties.

<sup>2</sup>NACCED members administer Community Development Block Grant (CDBG), HOME Investment Partnership (HOME) and McKinney Act homeless housing programs within their counties.



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The CDBG program has been responsibly used by counties and cities to reclaim blighted neighborhoods, provide needed public facilities and services, and to expand job opportunities for low- and moderate-income persons. In the 1993 Annual Report to Congress on the Community Development Block Grant program, HUD reported that more than 90 percent of funds expended in 1990 went for activities benefitting low- and moderate-income households, in keeping with Congressional intent. During that year, urban counties continued their usual pattern of spending, using 32 percent of their funds for housing- related activities, 36 percent of their funds for public works activities, 8 percent for economic development, 6 percent for public services, and 14 percent for program administration.

In Montgomery County, we use the CDBG program for a variety of activities including facilities rehabilitation and public services. One exemplary activity to be undertaken with CDBG funds in 1994 is funding Silver Spring Vision, a non-profit organization which will oversee the rehabilitation of an old bakery into a day center for the homeless. To be known as the Silver Spring Counseling and Renewal Center, the Center will include meals provided by another non-profit, Shepherd's Table, psychiatric counseling, job counseling, clothing availability and support groups. Medical services are planned at a later date. The Center will open late this year.

#### Funding for, and Refinements to, the CDBG Program

Mr. Chairman, during the recent NACo Legislative Conference a Resolution was adopted which contains NACo's policy recommendations with respect to funding for, and refinements to, the Community Development Block Grant program. A copy of that Resolution is attached. I would like to highlight some of its key provisions.

The Resolution calls on Congress to appropriate in FY 1995 a minimum of \$4.4 billion for CDBG. We are pleased to note that H.R. 3838 authorizes \$4.53 billion in FY 1995 and \$4.66 billion in FY 1996 for CDBG. We support these authorization levels. We also support the \$2.11 billion in FY 1995 and \$2.17 billion for FY 1996 in loan guarantee authority under Section 108. Likewise we support the Administration's "Economic Development Initiative," included in H.R. 3838 whereby funds recaptured from Urban Development Action Grants will be used to reduce the interest rate, and/or provide a loan loss reserve, on loans made for economic development under Section 108.

We must, however, point out that NACo is opposed to the proposal in the FY 1995 budget which would set-aside \$200 million in CDBG funds for a new LIFT, "Leveraged Investments for Tomorrow" program. While such a program, focused on neighborhood-based economic development, may be an appropriate use of federal funds, we could not support it at the expense of funding for the CDBG program. Taking formula grant funding, which benefits all entitlement jurisdictions, and converting it to discretionary money for the benefit of a few cannot in our view be justified.

Another very important element of the Resolution calls on Congress to resist any attempt to restrict

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the CDBG program's flexibility by limiting eligible activities, requiring proportionate accounting of low- and moderate-income benefits, or making certain categories of current grantees ineligible to receive direct allocations. Allow me to elaborate on this recommendation.

The nation's county officials were deeply disappointed and disturbed over the "trashing" the CDBG program took on the floor of the Senate during debate last year on the Administration's failed economic stimulus proposal. As you will recall 54 projects were singled out for criticism on the basis that, as recreational facilities like swimming pools or warming huts, they represented an inappropriate use of CDBG funds. We unabashedly submit that a swimming pool in a low-income neighborhood, perhaps serving a public housing project, is an appropriate use of CDBG funds. This provides constructive activities for young people and an alternative to violence and drugs. Prohibiting the funding of needed recreational facilities with CDBG funds would strike at the heart of the program by undermining local needs-identification, local priority-setting and local flexibility. We strongly urge Congress to resist such a change.

Likewise we are strongly opposed to requiring a proportionate accounting of benefit. You will recall that the previous Administration called for this change, as has HUD's Inspector General. The proposal was debated at length by the full House Banking Committee in 1990 and resoundingly rejected. Such accounting would make it very difficult, if not impossible, for a community to undertake priority area-benefit activities. In addition, it would severely hamper our efforts to stabilize marginal, mixed income neighborhoods that may, in the absence of CDBG improvements, be overrun with blight, and thereby require more substantial revitalization efforts later on.

Mr. Chairman, as you know the Congress mandated that HUD undertake a study of the adequacy of the existing CDBG formula and report back with recommended changes by July, 1993. While we have not seen it, there are hints that the study may recommend that certain categories of current entitlement recipients be rendered ineligible to receive funding directly from HUD, based apparently on the notion that they are too wealthy and thus do not have a need. Should the study make such a recommendation, we urge you to reject it.

There are a number of reasons why. First, to be poor in a wealthy jurisdiction is usually more difficult than in one where those of similar lower incomes reside. Second, to the extent that formulae, either the current or some other, are a proxy for need, the funds will be directed toward that need. Thus if a jurisdiction's relative need is less, it will get less funding. Finally, let's not forget that CDBG funds result from federal taxes collected. The taxpayers residing in jurisdictions which currently receive CDBG funds should not be arbitrarily excluded from seeing a return of some of those dollars to their jurisdiction to benefit lower income persons residing there.

The Subcommittee may be asked to consider a proposal to increase the CDBG public services cap from 15 to 20 percent. NACo does not support this increase. CDBG is primarily an infrastructure program. It should remain so with only incidental public services eligible within a narrow cap.

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Funding for, and Refinements to, the HOME Investment Partnerships Program

Mr. Chairman, the HOME program is just now realizing the potential which those of us who fought for it anticipated. According to the latest information compiled by HUD of the \$2.5 billion appropriated by Congress in FY 1992 and 1993, 60 percent is supporting rental housing, and 39 percent is assisting homebuyers/homeowners. Nineteen percent is being used for new housing construction, 71.7 percent for rehabilitation, 6 percent for acquisition, and 2.9 percent for rental assistance. The amount of HOME funds per unit is averaging \$19,442 for new construction and \$17,140 for rehabilitation. What we are seeing here is an emphasis on rehabilitation where it is the most cost-effective means of addressing local housing needs as Congress intended, as well as the prudent use of HOME funds on a per unit basis. In fact, according to HUD, \$1 of HOME funds is leveraging \$1.33 in other funds.

What is truly amazing, and certainly to be applauded, is the deep targeting which is occurring in the use of HOME funds. For rental housing, 43.2 percent of the funds are benefitting households whose income falls between 0 and 30 percent of the median income, 23.7 percent for those with incomes between 31 and 50 percent of median, 7.2 percent for those between 51 and 60 percent of median, and 2.1 percent for those between 61 and 80 percent. On the homeownership side, 78.7 percent of the funds are benefitting those below 60 percent of median, while 21.3 percent are providing benefit to those from 61-80 percent of median. While the statute calls for targeting all funds to those at or below 80 percent of median, Participating Jurisdictions are in fact targeting well below that level.

HUD currently determines that HOME funds are committed to a project whenever an entry is made in the Cash/Management Information System. This system shows that as of the end of February, 61.4 percent of the FY 1992 and 9 percent of the FY 1993 HOME funds have been committed. These HUD figures are somewhat misleading. For a variety of reasons, many HOME Participating Jurisdictions do not enter projects into the C/MI system until late in the process despite having the funds under a locally executed, legally binding contract. Thus, while it may appear that Participating Jurisdictions cannot use all of the funds Congress has appropriated, this is emphatically not the case. We have been working with HUD to change the regulatory definition of commitment to one which will more appropriately conform HOME to the CDBG program's definition of commitment, i.e. subject to a legally binding contract. We are optimistic that HUD will so modify its regulations.

In Montgomery County we are using HOME funds to support a number of different housing activities. The Montgomery Housing Partnership, a qualified Community Housing Development Organization (CHDO), is receiving funding to oversee the rehabilitation and conversion of an old motel in Rockville into 80 plus units of one and two bedroom rental units. The targeted population is 50-60 percent of median. Our County Housing Opportunities Commission has under construction, using HOME funds, a rental townhouse development, with 15 units set-aside for households at or below 30 percent of median income. HOME is a very important resource used by the County in combination with our own and other resources to help meet the housing needs of our very low-income citizens.

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NACo has also adopted a Resolution containing our policy on funding for, and refinements to the HOME program. As to an appropriations level for FY 1995, the Resolution calls on Congress to approve a level of no less than \$1.275 billion, equivalent to this year's level. We are pleased to note that H.R. 3838 provides for a two-year reauthorization of HOME at \$2.23 billion for FY 1995 and \$2.3 billion for FY 1996. We support these authorization levels.

We also note that H.R. 3838 contains a number of noncontroversial refinements to the HOME program. These refinements were recommended by a number of national organizations, including NACo, to HUD last summer and were subsequently proposed by HUD to the Congress and incorporated in S. 1299. That legislation passed the Senate but was not acted upon by the House. Among these refinements are a leveling of the nonfederal matching requirement to 25 percent, making it easier to account for the targeting requirements by allowing Participating Jurisdictions to track units-assisted rather than funds spent, and eliminating the requirement that those assisted with HOME funds be first-time homebuyers as opposed to merely low-income homebuyers. We are pleased to support these noncontroversial refinements, and we recommend that the Subcommittee go beyond them by incorporating others included in the NACo Resolution. There are a couple I'd like to highlight.

NACo recommends that, rather than requiring an annual on-site review of each HOME-funded project, Congress require Participating Jurisdictions to prepare and follow a monitoring plan which enables them to assure compliance with the program's occupancy restrictions. Such a plan might provide for an annual desk review of tenant files supplemented by an on-site inspection every three years. This is done currently with respect for units assisted through federal Low-Income Housing Tax Credits.

We believe that Participating Jurisdictions should have the ability to use HOME funds to provide credit enhancement by securing loans made by private lenders. We also recommend that Congress authorize within HOME a loan guarantee program comparable to the Section 108 program under CDBG. This would enable Participating Jurisdictions to undertake larger projects.

There are two provisions in H.R. 3838 which we would like to see modified. One is to eliminate the earmark of \$25 million off the top of the HOME allocation for the National Community Development Initiative. We understood that, when authorized last year, this was a one-time authorization, whereby foundations' funding would be leveraged to provided capacity building for nonprofit entities. While we certainly support such capacity building, there is, in our view, adequate funding for nonprofits through the existing \$14 million set-aside in the HOME program. We also urge the Subcommittee to restore the \$500,000 threshold for direct funding. Current law provides for dropping the threshold whenever the HOME appropriation drops below \$1.5 billion. We are concerned that the growth of Participating Jurisdiction over time will result in a diminution of the funds available to those who are already receiving allocations of funds directly.

I would like to add NACo's voice of support to the efforts of HUD and the Congress to reform FHA's



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multifamily property disposition program. The existing inventory of HUD foreclosed properties is a drain on the federal treasury and keeps HUD in the position of landlord, something it does not by its own admission do very well. We were pleased to hear you say recently that the issue is expected to be resolved shortly, with legislation passing the Congress later this month. We applaud your efforts.

Although I have focused primarily on issues pertaining to the CDBG and HOME programs, I want to briefly comment on several issues. One has to do with the president's FY 1995 budget, which would nearly double homeless assistance. While NACo recognizes the need for and supports additional funding to address homelessness, county officials urge that these intensified efforts not be at the expense of funding for existing programs like HOME, public housing, and housing for the elderly and handicapped. If we are to seriously confront the housing crisis in this country, it is imperative that we sustain funding for permanent housing for all of our citizens in need of decent and affordable accommodations.

The President's budget also proposes consolidating McKinney Act programs into a more unified delivery system for the homeless. NACo has long standing policy in support of allocating homeless assistance funds through a formula-driven block grant program.

In closing, Mr. Chairman, counties have a deep interest and special role in meeting the urgent needs of persons living with AIDS. The federal government took an important step in assisting state and local governments, including counties, to address one aspect of their need through the Housing Opportunities for Persons with AIDS (HOPWA) program. Prior to 1992, counties and cities throughout the country developed fair allocation and implementation procedures to meet the needs of entire communities. Counties were major participants, because the majority of Ryan White Title I areas are in county-based systems of care, and those counties continue to receive direct funding for treatment and other services. These effective working relationships were disrupted when the Housing and Community development Act of 1992 modified the program to bar counties from acting as grantees or implementing agencies for metropolitan communities, even where counties have been so designated by agreement with other jurisdictions within the community during the program's first full year. NACo urges that this Subcommittee to amend Section 605 of the Housing and Community Development Act of 1992 to permit counties, as well as, cities to serve as grantees and allocating agencies for the HOPWA program.

Thank you for the opportunity to present NACo and NACCED's views.

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# NATIONAL ASSOCIATION of COUNTIES

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440 First St. NW, Washington, DC 20001  
202/393-6226

## 2G. Resolution on Funding for and Refinements to the Community Development Block Grant Program

**WHEREAS**, the Community Development Block Grant (CDBG) program remains the premier federal tool for neighborhood stabilization, revitalization, and economic development; and

**WHEREAS**, the Housing and Community Development Act of 1992 contains a number of refinements to the CDBG program which give county officials more flexibility in its use; and

**WHEREAS**, additional funding and further refinements are needed to increase the program's effectiveness:

**THEREFORE, BE IT RESOLVED** that the National Association of Counties urges Congress to recognize the need for increased annual appropriations to meet pressing needs and to appropriate a minimum of \$4.4 billion for CDBG in fiscal 1995; and

**BE IT FURTHER RESOLVED** that new initiatives for economic development should be authorized and appropriated apart from the \$4.4 billion for CDBG; and

**BE IT FURTHER RESOLVED** that the National Association of Counties urges Congress to make the following changes in the CDBG program:

- A. Modify the CDBG eligible activity housing services by removing the requirement that they be subject to the administrative cap since they are activity delivery costs not otherwise subject to the cap;
  - B. Clarify that CDBG funds may be used for administration of housing activities pursuant to an approved CHAS;
  - C. Increase from eight to twelve units the threshold for triggering Davis-Bacon wage rate requirements in order to conform CDBG to the HOME program;
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- D. Revise the definition of eligible subrecipients to include community housing development organizations (CHDOs) as defined under HOME;
- E. Provide administrative cap relief by:
  - 1. legislating that assistance to minority and women-owned businesses and fair housing activities are presumed to directly benefit low- and moderate-income persons, thus making them directly eligible;
  - 2. clarifying that overall community development planning and administration are within the administrative cap, while project-specific planning and administration are directly eligible as program delivery costs;
- F. Express opposition to a planned rule that would require all program income, including program income in a revolving fund, to be substantially disbursed before additional withdrawals are made from the U.S. Treasury;
- G. Eliminate the ten-day limit on funds deposited into escrow accounts by CDBG entitlement grantees for use in funding loans and grants for rehabilitation of privately owned residential property;
- H. Authorize the use of funds recaptured from Urban Development Act Grants to reduce the interest rate and create a loan loss reserve on loans made under the CDBG Section 108 loan program;
- I. Oppose any effort to reduce from the current 1.5 to 1 the amount of CDBG funds which a grantee may have in its line of credit 60 days prior to the start of its next program year; and
- J. Oppose any attempt to restrict the CDBG program's flexibility by limiting eligible activities, requiring proportionate accounting of low- and moderate-income benefits, or making certain categories of current grantees ineligible to receive direct allocations, and

**BE IT FURTHER RESOLVED** that the National Association of Counties urges the Department of Housing and Urban Development to take the following administrative actions with respect to the CDBG program:

- A. Implement accurately through regulations and guidance the provisions in the Housing and Community Development Act of 1992 that prohibit a "but for" requirement on CDBG funding for economic development;

- B. Amend the CDBG regulations (24 CFR 570.201(c)) public facilities regarding special needs housing to read: "examples include, but are not limited..."; and
- C. Implement as quickly as possible the provisions of the 1992 Act that provide for technical training of HUD staff who work with and monitor the economic development activities of CDBG grantees.
- D. Establish income limits based on a metropolitan area's actual median income and remove the U.S. median family income level as the "cap" on all income limits.

Adopted July 20, 1993

Revised by the Community & Economic Development Steering Committee March 3, 1994 (unanimous)



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# NATIONAL ASSOCIATION *of* COUNTIES

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440 First St. NW, Washington, DC 20001  
202 393 6226

## 2A. Resolution on Funding for and Refinements to the HOME Investment Partnerships Program

**WHEREAS**, the Housing and Community Development Act of 1992 contains a number of refinements to the HOME program which give county officials more flexibility to use this tool to expand the supply of affordable housing, but additional refinements are needed to simplify and increase HOME's flexibility even further, and

**WHEREAS**, the HOME program is funded at \$1.275 billion for fiscal 1994, and the president's budget proposes funding it at \$1 billion in fiscal 1995,

**WHEREAS**, all housing and community development programs, including HOME must be reauthorized in 1994:

**THEREFORE, BE IT RESOLVED** that the National Association of Counties urges Congress to fund HOME at least at \$1.275 in fiscal 1995; and

**BE IT FURTHER RESOLVED** that Congress make the following refinements to the HOME program when it is reauthorized:

1. **Matching requirements**--replace the current two-tiered match of 30 percent for new construction and 25 percent for all other activities with a uniform 25 percent match. Modify the automatic match waiver by eliminating the phased reduction of either 50 percent or 100 percent. Communities should qualify for a 100 percent waiver if they meet either of two distress criteria: poverty or per capita income. States and localities that are experiencing cyclical distress (for example, a lag in tax receipts) also should qualify for a 100 percent match waiver;

2. **Rent calculations**--replace the existing requirement that eligible rental housing bear rents no greater than the lesser of existing Fair Market Rent or an amount not exceeding 30 percent of the adjusted income for a family whose income equals 65 percent of area median, with a requirement that a rent not greater than the Fair Market Rent may be charged;

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3. **Targeting requirements for rental housing**--delete the present requirement that a HOME-assisted project must have at least 20 percent of the units set aside for those at 50 percent of median income or less; replace the current program-wide targeting of 100 percent of the funds at 80 percent of median or less, and 90 percent of the funds at 60 percent of median or less, with a requirement that 100 percent of the funds be spent on activities which benefit those at 80 percent of median income or less. This change would conform the rental housing targeting to that which applies to ownership housing. Deeper targeting would prevail when HOME is used in conjunction with another program with deeper targeting requirements;

4. **Monitoring requirements**--rather than an annual on-site review of each project, require that participating jurisdictions prepare, subject to HUD approval, a monitoring plan which enables them to assure compliance with the program's occupancy restrictions;

5. **Community Housing Development Organizations (CHDOs)**--modify the current definition of CHDOs by eliminating the neighborhood representation requirement and making it consistent with other federal programs such as the Low-Income Housing Tax Credit;

6. **CHDO activities**--permit CHDOs to undertake any eligible HOME activity within the CHDO set-aside funds;

7. **Recapture of funds used for home ownership**modify the requirement that funds used for home ownership which are recaptured be used only for home ownership, allowing them instead to be used for any HOME-eligible activity;

8. **Construction Guarantees and Bridge Financing**--amend the statute to permit HOME funds to be used for loan guarantees for single and multifamily housing and bridge financing for tax credit projects;

9. **Long term loan guarantee program within HOME**- - amend the statute to authorize a long term loan guarantee program under HOME comparable to the Section 108 loan guarantee program under Community Development Block Grants in order to allow participating jurisdictions to undertake rental projects;

10. **Use of HOME funds for program administration**--clarify that the 10 percent of a participating jurisdiction's allocation which can be used for program administration applies to the funds until they are expended;

11. **Compliance with targeting requirements**--replace the current law requirement that income targeting be accounted for by funds expended, with a requirement that funds be accounted for by units assisted;

12. **Use of HOME for loan guarantees**--specifically allow compensating balance as a form of loan guarantee in the HOME program;

13. **Amend the HOME program**--to authorize newly formed or expanded consortia to receive funding for their non-entitled share from the state rather than the local share;

14. **Mixed use projects**--amend the HOME program to eliminate the requirement that mixed use projects be at least 51 percent residential use;

15. **Davis-Bacon**--conform the HOME program to the Community Development Block Grant program by exempting housing that is constructed with non-HOME funds from the Davis-Bacon prevailing wage requirements when HOME funds only are used for land acquisition, and

16. **CHDO** - modify the CHDO requirements to permit a carryover credit for funding provided in excess of the required 15 percent set aside in any year.

**BE IT FURTHER RESOLVED** that the National Association of Counties calls on the Department of Housing and Urban Development to make further regulatory refinements in the HOME program as follows:

1. **Home activity delivery costs**--conform the treatment of activity delivery costs under the HOME program to that under the CDBG program, i.e., allow them to be charged to the eligible activity with which they are associated and include the cost of monitoring project compliance as an eligible delivery cost;

2. **Definition of HOME project**--permit participating jurisdictions the flexibility to define what constitutes a HOME project rather than limiting a project to site(s) or building(s) within a four block area;

3. **Use of HOME funds for initial project operating reserves**--remove the restriction in the regulations which limit funding for a project's operating deficit reserve during rent-up to 18 months;

4. **Equity investments for project financial work-outs** - clarify that equity investments made as part of the financial work-out of an existing low-income housing project are an eligible use of HOME funds;

5. **Cash and Management Information System (C/MI) projects**--permit participating jurisdictions to establish as projects within the C/MI system home ownership and rental assistance programs rather than a separate project for each household assisted.

**6. Pre-environmental clearance cost**--make pre-environmental clearance activity costs (appraisal, lead/asbestos inspections, energy calculations, consultants) reimbursable activity delivery costs in order to permit participating jurisdictions to undertake them;

**7. Additional forms of matching contributions**--clarify that the difference between acquisition cost and the appraised value of land or other real property, acquired with or without federal resources, is eligible match. The regulations currently allow such a differential to count in the case of properties acquired from the Resolution Trust Corporation for affordable housing;

**8. Projects out of compliance**--clarify that, in the event that a project which a participating jurisdiction funds falls out of compliance with the requirements of HOME, the jurisdiction shall first seek to return the project to compliance, then if necessary, make reasonable efforts to see that the project developer repays the HOME subsidy; but in the event that the developer/owner cannot repay the subsidy, permit HUD to reduce future grants, but not require the jurisdiction to repay such subsidy to its HOME trust fund or to HUD;

**9. Housing quality standards and HOME**--assisted housing - exempt housing units receiving \$5,000 or less in HOME funds for weatherization, emergency assistance, home repair, or accessibility from Section 8 housing quality standards;

**10. Environmental review**--provide an exemption from the requirements for rehabilitation of one to four units and all owner-occupied rental and home ownership projects and provide flexibility by permitting one environmental review for projects receiving both HOME and CDBG funds;

**11. CHDO operating funds**--clarify that, at the discretion of the participating jurisdiction, that up to 5 percent of its allocation which may be made available for CHDO operating assistance may be taken from within or outside the CHDO set-aside;

**12. Drawdown of HOME funds**--increase from 15 to 30 days the time frame within which funds drawn down must be spent;

**13. Definition of net proceeds for home ownership**clarify that the definition of net proceeds includes improvements made to the property by the owner;

**14. Spending HOME funds**--clarify that participating jurisdictions may commit current year HOME funds prior to having fully committed prior year funds in order to permit them to take advantage of opportunities such as the acquisition of land for affordable housing;

**15. C/MI system for tenant assistance**--eliminate the requirement that specific information (social security number, amount of tenant contribution, amount of subsidy)



be provided up front on each tenant to be assisted with HOME funds, requiring instead that such information be contained in the completion report;

16. **Affordability period**--remove the requirement that the affordability period correspond to the 30-year term of the FHA mortgage insurance commitment placed on the unit. Instead, the HOME affordability requirements should prevail;

17. **Single Room Occupancy (SRO) projects**--conform HOME's definition of SRO projects to that used in other federal programs such as the McKinney Homeless programs, to permit HOME to be used in combination with these programs;

18. **Davis Bacon**--eliminate the Davis-Bacon requirements for HOME projects of 12 or fewer units that are intended to be sold to individuals as separate units;

19. **Site and Neighborhood Standards**--eliminate the requirement that HOME funded new construction projects comply with Section 8 site and neighborhood standards.

Adopted July 20, 1993

Revised by Community and Economic Development Steering Committee, March 5, 1994  
(unanimous)

March 16, 1994, hearing held by the  
Subcommittee on Housing and Community Development,  
entitled "H.R. 3838, Housing and Community  
Development Act of 1994"

QUESTIONS FROM CHAIRMAN HENRY B. GONZALEZ TO  
HONORABLE WILLIAM E. HANNA, JR.

1. What are your suggestions as how to promote the amount of economic development activities conducted by CDBG recipients. Will the UDAG recaptures, which may provide the Department with only \$100 million in extra funding, used in conjunction with the section 108 loan guarantees reduce communities' reluctance to engage in economic development activities with section 108 loan guarantees.

Are local community development agencies aware of the section 108 program and its requirements? Do they have the capacity to create viable loans arrangements with other organizations or is greater technical assistance needed to assist them? Do you feel as if HUD has the capacity to review these loan applications and make a informed judgement as to whether they are worth the risk?

2. In your estimation, what hinders communities from conducting economic development activities? Is legislative or regulatory change necessary to increase communities' participation in economic development activities?

3. How do you feel about increasing the public services cap in the CDBG program?

4. How do you feel about expanding the eligible activities for Section 108 loan guarantees for the purpose of financing non-housing, community facilities?

5. In your testimony you recommend that HOME funds be used as a credit enhancement for conventional loans and that HOME funds be used for housing as CDBG funds are used under the Section 108 loan guarantee program.

Can you elaborate on these two ideas?

6. Can you comment on CHDO activities, their expenditure rates, and capabilities? Are participating jurisdictions still having difficulties in identifying CHDOs?

7. How often are HOME funds being used for tenant based rental assistance?

8. In your testimony you have noted HUD's interpretation of statutory provisions concerning match. Can you give us other examples of regulatory "over interpretation"--not now but in writing, so that if necessary we can reaffirm Congressional intent?

**QUESTIONS FROM CHAIRMAN HENRY B. GONZALEZ TO  
HONORABLE WILLIAM E. HANNA, JR.**

1. What are your suggestions on how to promote the amount of economic development activities conducted by CDBG recipients? Will the UDAG recaptures, which may provide the Department with only \$100 million in extra funding, used in conjunction with the section 108 loan guarantees, reduce communities' reluctance to engage in economic development activities with Section 108 loan guarantees?

Are local community development agencies aware of the section 108 program and its requirements? Do they have the capacity to create viable loan arrangements with other organizations or is greater technical assistance needed to assist them? Do you feel that HUD has the capacity to review these loan applications and make an informed judgment as to whether they are worth the risk?

Mr. Hanna: The greatest obstacle counties have encountered in their efforts to use CDBG for economic development was overly restrictive regulations promulgated by the previous administration. We are encouraged that the attitude at HUD has changed to one that promotes economic development. I am unable to gauge the full impact that the expansion of the section 108 program will have on utilization by participating jurisdiction. County officials support the expansion of this program and more attention now is being focused on it. I believe that HUD field staff could benefit from technical assistance on the section 108 program in order to make better informed judgments on how counties use it.

2. In your estimation, what hinders communities from conducting economic development activities? Is legislative or regulatory change necessary to increase communities' participation in economic development?

Mr. Hanna: As stated in my response to question #1, HUD's attitude has been the biggest obstacle. We are reviewing the draft regulations that implement changes on use of CDBG for economic development that were enacted in the Housing and Community Development Act of 1992. County officials support changes made in that Act and would be pleased to offer comments on the draft regulations once we have had an opportunity to review them thoroughly.

3. How do you feel about increasing the public service cap in the CDBG program.

Mr. Hanna: County officials do not support this change, because CDBG should remain primarily an physical improvement program with only incidental funding for public services. I feel the 15 percent cap on use of CDBG for public services is appropriate.

4. How do you feel about expanding the eligible activities for Section 108 loan guarantees for the purpose of financing non-housing, community facilities.

Mr. Hanna: I am pleased that S. 1299 contains this expansion.

5. In your testimony you recommend that HOME funds be used as a credit enhancement for conventional loans and that HOME funds be used for housing as CDBG funds are used under the Section 108 loan guarantee program. Can you elaborate on these two ideas?

Mr. Hanna: Under such a proposal, a participating jurisdiction would agree to guarantee all or some portion of a loan made by a lender for a HOME assisted single or multifamily project. The loan could be for up to five years and could cover construction in the case of single family housing (to replace savings and loans which formerly made such loans), or construction, rent-up and a year or two of occupancy for multifamily rental housing. The guarantee would constitute a pledge of some or all of the participating jurisdiction's current year allocation. The amount of the guarantee could decline over the term of the loan. The participating jurisdiction would not draw down the funds for the guarantee, but would reserve the amount in its HOME trust fund. Only in the event of a default would the funds be drawn down. Fannie Mae and Freddie Mac could be encouraged to buy the permanent loans which take out these loans.

I believe the statute should be amended to create the equivalent of a CDBG Section 108 loan guarantee program within HOME. The program could work either of two ways:

- A. Participating jurisdictions could provide guarantees for loans on HOME-assisted single family and multifamily housing. This loan guarantee mechanism would be sufficiently flexible to cover construction and permanent financing, home ownership and rental housing, taxable and tax-exempt financing, partial and full coverage against losses, and short- and long-term guarantees. The guarantees would be backed by the jurisdiction's future HOME allocations. Jurisdictions could provide guarantees in an aggregate amount up to five times their annual HOME allocation. No HOME funds would be drawn down unless the loan goes into default. Fannie Mae and Freddie Mac could be encouraged to buy permanent loans guaranteed under this authority.

Under this option a participating jurisdiction would issue a loan guarantee to a project lender. The guarantee would be backed by a stand-by loan agreement between the participating jurisdiction and HUD. Under the stand-by agreement, HUD would agree to cover any claims on the guarantee by issuing notes on behalf of the participating jurisdiction that would be repaid, with interest, from the



jurisdiction's future HOME allocations. This could be done over a period of time up to thirty years. However, no funds would be drawn down unless the loan goes into default. If a call is made on the stand-by loan agreement, the repayments to HUD would be subject to HOME's matching requirements. In addition, fulfillment of a guarantee obligation neither would be treated as a refinancing nor would it be subject to the prohibition against investing HOME funds in a project prior to the termination of the use restrictions.

B. Participating jurisdictions could borrow against their future HOME allocations to provide an up-front capital subsidy (equity contribution) to reduce the rents on a multifamily project to make them affordable. Under this approach HUD would guarantee notes issued by a participating jurisdiction which would be repaid in annual increments from the jurisdiction's future HOME allocations. Used in this fashion a sufficient amount of HOME funds could be aggregated to undertake either large-scale projects or engage in substantial production of units.

6. Can you comment on CHDO activities, their expenditure rates, and capabilities? Are participation jurisdictions still having difficulty identifying CHDOs?

Mr. Hanna: Based on data in the HOME Cash and Management Information System, HUD reports that as of February 28, 1994, 10.2 percent of allocated funds have been committed to CHDO projects. Some county administrators feel the definition of CHDO is too restrictive, particularly because of the board membership issue (30 percent of the board must be representatives of the area served). Some participating jurisdictions do not have designated CHDOs and therefore have not committed the 15 percent of funds that are set-aside for their use. Officials in this predicament suggest that some existing non-profits in their jurisdiction have the capacity to undertake housing production despite their not meeting the CHDO definition and should qualify for funds set-aside for CHDOs.

7. How often are HOME funds being used for tenant based rental assistance?

Mr. Hanna: Based on data in the HOME Cash and Management Information System, HUD reports that 2.9 percent of HOME funds are committed to rental assistance, 71.7 percent for rehabilitation, 19.2 percent for new construction and six percent for acquisition. This is as it should be since HOME is a housing production program.

8. In your testimony you have noted HUD's interpretation of statutory provisions concerning match. Can you give us other examples of regulatory "over interpretation" -- not now but in writing, so that if necessary we can reaffirm Congressional intent?

Mr. Hanna: One example involves activities that are eligible for HOME funding.

Through regulations HUD has taken the position that only activities that are specifically enumerated in the statute are eligible. This restrictive interpretation has meant that jurisdictions have not been able to use HOME for loan guarantees.

**Statement**

**of**

**Daniel P. Henson, III  
Commissioner  
Housing and Community Development  
Baltimore, Maryland**

**on behalf of the**

**National Community Development Association**

**and the**

**National Association of Housing and Redevelopment Officials**

**on H.R. 3838**

**The Housing and Community Development Act of 1994**

**before the**

**Subcommittee on Housing and  
Community Development**

**Committee on Banking, Housing  
and Urban Affairs  
U.S. House of Representatives**

**March 16, 1994**

**STATEMENT OF  
Daniel P. Henson, III  
Commissioner, Housing and Community Development  
Baltimore, Maryland**

**March 16, 1994**

Mr. Chairman and Members of the Subcommittee, I am Daniel P. Henson, III, Commissioner, Housing and Community Development for the City of Baltimore, Maryland.

I am pleased to have this opportunity to testify before the Subcommittee on behalf of my own City of Baltimore and the members of the National Community Development Association (NCDA) on the reauthorization of our nation's key housing and community development programs, particularly the Community Development Block Grant Program (CDBG) and the Home Investment Partnerships (HOME) Program, the two most critical federal resources available to local governments today.

NCDA is a membership organization representing more than 500 local governments that administer federally-supported community development, housing and human service programs. Since 1968, NCDA has been an advocate in securing effective and responsive housing and community development programs for local governments.

I would like to express our thanks to you Mr. Chairman for your leadership in support of these important programs. Your bill, H.R. 3838, The Housing and Community Development Act of 1994, provides an important framework for extending these vital housing and community programs.

Mr. Chairman, before I address the specific reauthorization issues. I would like to note that beginning March 28 through April 3, 1994, communities across the nation will mark the eighth annual celebration of National Community Development Week, a week-long annual campaign to emphasize both locally and at the national level the contributions of the federal Community Development Block Grant (CDBG) program. It is during this period that local governments plan activities at home to showcase, both for their own citizens, as well as their Congressional delegations, the projects and services provided by CDBG.

As in previous years, the National Community Development Week campaign will be promoted by major national organizations of elected and appointed officials concerned with the continuation of the CDBG program. These groups include the United States Conference of Mayors (USCM), National League of Cities (NLC), National Association of Counties (NACO), Association of Local Housing Finance



Agencies (ALFHA), National Association of Housing Redevelopment Officials (NAHRO), and the Council of State Community Development Agencies (COSFDA) and the National Community Development Association (NCDA). We are also pleased that HUD Secretary Cisneros, for second consecutive year, has issued a Declaration expressing HUD's support of National Community Development Week which states, *"CDBG has shown the strength of a targeted but flexible approach to problems in our communities, while fostering cooperative relationships between the public and private sectors to solve these problems."*

We hope that many of the committee members will have an opportunity to participate in National Community Development Week activities and learn first hand of its accomplishments.

## COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG)

Mr. Chairman, I will first address my remarks to the Community Development Block Grant Program (CDBG).

Mr. Chairman, as you know, 1994 marks the twentieth anniversary of the CDBG program. The program has been sustained for twenty years as one of the most successful federal programs to revitalize and stabilize our neighborhoods

The success stories highlighted as a part of National Community Development Week celebrations over the years stand in stark contrast to the misrepresentations of the CDBG program which occurred during the Administration's unsuccessful efforts to provide an economic stimulus to our local communities with the infusion of additional CDBG funds. State and local governments were heartened in the aftermath of the stimulus defeat by the response of Congress in a clear and strong bipartisan show of support for the Community Development Grant Program, with an appropriation of \$4.4 billion in Fiscal Year 1994, a 10% increase above the FY93 level of \$4 billion and the highest free-standing funding level in the program's 20 year history. However, the \$4.4 billion level for CDBG is only 68% of the 1980 level after adjusting for inflation. Communities throughout the nation continue to rely on CDBG as the program that provides the single most important source of federal funding available to local governments today - funding to address a broad array of programs and activities to improve the physical, economic and social conditions for our nations low and moderate income communities.

Mr. Chairman, fundamentally the CDBG Program as it exists today is a sound, workable, effective program. We strongly believe that no major changes are necessary, however, NCDA is proposing a few modifications in the administration of the program, which we believe will strengthen and expand its flexibility and application and further enhance the responsiveness of the program to local needs.

### **Reauthorization Period and Funding Levels**

NCDA strongly encourages the Subcommittee to support the inclusion of a four-year reauthorization of the Community Development Block Grant program through fiscal year 1998. A multi-year authorization is essential to consistent administration of the program and ensures program continuity and efficiency, particularly during this most difficult period of governmental restructuring at both the federal as well as local levels.

We recognize that last year's budget agreement has constrained funding for all domestic programs. However NCDA concurs with the Subcommittee's recommendation of an authorization level of no less than \$4.4 billion for the program in FY95, \$4.6 billion in FY96 with corresponding increments added respectively in FY97 and FY98. According to HUD documents, since the last reauthorization of the CDBG program in FY92, the number of directly entitled communities has increased by 48 cities and urban counties, and the financial outlook for local governments has worsened, placing greater demands on the program to respond to low and moderate income needs.

### **Public Service Cap Relief**

Many NCDA members, Mr. Chairman, have reported increasing pressure on the 15% public services cap in the CDBG program. Currently, public services under CDBG are limited to 15% of a community's annual grant plus program income. Public services include public safety programs, child care, job training, services for elderly and handicapped, crime prevention and recreational services. Last December, the NCDA Board of Directors adopted a resolution to support an expansion of the CDBG public services cap from the current 15% to 20%. In supporting this policy, NCDA recognizes the interrelationship of revitalization activities and needed social services and seeks to provide a modest but important increase in program flexibility. Such an increase would allow CDBG recipients the opportunity to provide an expanded level of public services in support of physical development activities and thereby enhance the holistic approach many communities have adopted in responding to their local community development needs.

### **Section 108 Economic Revitalization Initiative**

Mr. Chairman, members of the subcommittee, as you know the HUD Office of Community Planning and Development (CPD) is pursuing an expansion of the Section 108 Loan Guarantee Program that is intended to lead to an increase in new economic development activity at the local level. The funds would be used to leverage loans or grants undertaken to complete economic development, housing and other related physical development under the CDBG program.

The Section 108 Loan Program is used to leverage loans or grants that are given to for-profit and not-for-profit entities to undertake projects related to housing and other physical and economic development activities under the CDBG program. Under the Administration's funding initiative, communities could use the Section 108 loan program in combination with funds recaptured from the Urban Development Action Grant (UDAG) Program to finance a portion of the cost of qualifying economic and neighborhood revitalization projects. Specifically, Section 108 loans could be used to set up a loss reserve account to protect future CDBG allocations, or interest subsidies that could increase the project cash flow available to repay the Section 108 Loan.

NCDA supports this initiative to expand the Section 108 Loan Guarantee program by using recaptured UDAG funds for communities to finance a portion of qualifying economic revitalization activities. While we support the thrust of your proposal and that of the Administration, we are concerned that the definition of economic revitalization is too narrow. The bill would limit economic revitalization grants to those economic development activities eligible under the CDBG program. We recommend that the definition be broadened to also include housing activities which contribute to economic revitalization. In this context, economic revitalization would be viewed as comprehensive in nature, including some combination of commercial activity, industrial activity, housing and mixed-use facilities.

NCDA understands that HUD has undertaken a broader marketing and educational approach in communities to expand their knowledge of the Section 108 program. We strongly support such an effort, as well as the other changes outlined in your bill to enhance the visibility and useability of the program. We expect that HUD's effort to provide greater visibility to the program will lead to an increased utilization of this important revitalization tool.

### **Neighborhood LIFT Program**

In its FY95 budget, HUD proposes to earmark \$200 million of the \$4.4 billion provided for CDBG for a new economic development initiative for distressed communities called Neighborhood Leveraged Investment for Tomorrow (LIFT). We understand that this new initiative is intended to provide funds to local governments on a competitive basis for industrial, commercial or mixed use real estate projects in distressed areas. HUD budget documents note that if the necessary authorizing legislation is not enacted for the Neighborhood LIFT Program, by January 1, 1995, the \$200 million would be available for allocation among CDBG entitlement and non-entitlement recipients.

While NCDA applauds the Administration's effort to address a problem affecting many of our communities with an infusion of targeted and expanded economic

development resources, we strongly oppose taking those funds from CDBG for this purpose.

If LIFT is authorized by Congress, NCDA is deeply concerned that the new initiative will reduce the overall CDBG funding level for grantees by 5% from last year. As we noted earlier in our testimony, although funding for CDBG has been increasing over the last several years, the demands on the program continue to increase. This is not the time to reduce overall funding for CDBG recipients. We want to retain the program's flexibility by not earmarking or further segmenting CDBG. The proposed set-aside of CDBG represents a shift from local discretion in spending CDBG dollars to HUD's discretion. The hallmark of the CDBG program has been the discretion provided local governments, we want local governments to retain that freedom.

### **Colonias Assistance Program**

NCDA strongly supports your efforts to aid and enhance the housing, infrastructure and social needs in severely distressed areas along the United States/Mexico border by extending and expanding assistance for Colonias. As you know, Colonias assistance was authorized in the Cranston-Gonzalez National Affordable Housing Act in 1990 for a three year period. The provision in H.R. 3838 to extend assistance to Colonias through September 30, 1996 as well as the expanded use of the Section 108 Loan Guarantee Program in Colonias to include public works activities will build upon those earlier efforts.

## **HOME INVESTMENT PARTNERSHIP (HOME) PROGRAM**

Mr. Chairman, NCDA represents hundreds of communities that strongly supported the enactment of the Cranston-Gonzalez National Affordable Housing Act of 1990, which brought us the HOME program and continue to stand behind the HOME program as a key to addressing our nation's growing housing crisis. With enactment of the HOME program a housing block grant structure was established which provided new opportunities to state and local governments and non-profits to address their housing needs.

Local governments continue to support the HOME program and are committed to making the program work in a meaningful fashion in our local communities. Without HOME, communities would be unable to leverage the kind of public and private resources for affordable housing that are necessary to address housing needs in a comprehensive manner.

Nearly three and one half years after the passage of the National Affordable Housing Act of 1990, the HOME program is actively working in communities throughout the country. For instance, consistent with the primary intent of the



HOME program, 70 percent of the HOME funds are currently being used for rental housing projects, followed by 26 percent for homeowner rehabilitation and 13 percent for first-time homebuyer programs. Rehabilitation is the number one HOME use with 72 percent of the total funds being committed to this activity.

According to HUD, the average HOME subsidy cost per unit is around \$17,000 with rental costs at a slightly higher rate and acquisition and tenant based rental assistance at lower costs per unit, of \$10,000 and \$5,000 respectively. As of the end of February 1994, the HOME program had assisted approximately 54,130 units and over \$940 million of HOME funds have been committed for housing, leveraging over \$1.2 billion in additional housing funds.

In addition, the HOME program has far exceeded the income benefit targeting guidelines dictated by Congress in the original HOME legislation. According to a statistical analysis of the HOME Program issued by HUD on February 28, 1994, over 43 percent of the HOME funds expended have gone to serve those persons at or below 30 percent of the area median income and 24 percent for those persons whose income fall at 50 percent or less than the area median. In terms of homeowner activity, the benefits are more evenly distributed with 37 percent of the funds serving those persons between 31-50 percent of the area median and 27 percent serving those between 0-30 percent of the area median income. These impressive figures provide further proof of the effectiveness of this federal housing block grant program.

While NCDA does not consider commitment and expenditure rates as an absolute measurement of the success of a program, the HOME program has more than doubled its commitment rates since HUD reported the figures at the end of June. According to the latest commitment and expenditure figures on the HOME program, reported on February 28, 1994 by the HUD Cash Management and Information System (C/MIS), participating jurisdictions (PJs) have committed approximately 61.4% of the FY92 funds and about 9 percent of the FY93 allocation.

Although, we are pleased with the substantially increased commitment rates, we assert that the highly prescriptive definition of "commitment" currently applied by HUD, does not accurately reflect the extent of actual HOME "activity". For example, most local governments have already "obligated" all of their HOME funds, yet due to the currently flawed definition, HUD's C/MIS fails to recognize many of these obligations as binding commitments. It is for this reason that NCDA has joined with several other national organizations, many of which are represented here today, in working with HUD to change the existing definition of commitment to one which is consistent with local and state definitions and how funds are recognized under the CDBG program. We have appreciated the support

of HUD and congressional staff on this issue and hope that it will be resolved in the near future.

Considering the number of HUD regulations, notices, and memoranda distributed over the past three years, it has not been easy for many communities to stay current on the numerous HOME changes and clarifications. Since the beginning of HOME, HUD has published or issued nearly 90 HOME-related documents, many with significant policy implications on program operation. Despite these impediments, we believe that the HOME program has truly begun to show its potential and we urge the Committee to continue to enhance the workability of this important housing program.

In order to further enhance and develop a strong network of housing providers, I firmly believe that extensive training and technical assistance must be provided on a continuous basis, to states and local governments as well as nonprofit developers. HUD's Office of Affordable Housing Programs, to its credit, has made great efforts to get the technical assistance out to communities. NCDCA, in conjunction with a number of national state and local government organizations, with the support of HUD, has just created the National Affordable Housing Training Institute (NAHTI), a HOME technical training organization. This entity will coordinate and monitor training and technical assistance efforts for states and local governments to further expedite the use of HOME funds. We appreciate the Congressional support for this important effort and hope to share with you a list of our upcoming technical assistance activities in the near future.

### *Specific Legislative Recommendations*

Mr. Chairman, thanks to the work of this subcommittee and the enactment of The Housing and Community Development Act of 1992, several of the programmatic inconsistencies found in the original HOME legislation were alleviated. In addition, the upcoming fifth Interim Rule will provide several useful changes and additional regulatory refinements to the HOME program. Although these accomplishments, coupled with the renewed cooperative partnership between the national organizations and the HUD Administration have served to expedite the use of HOME funds already, we believe that there are still statutory and regulatory modifications which will further enhance the flexibility and responsiveness of the program nationwide.

Mr. Chairman, I would like to submit for the record a supplementary document, which outlines NCDCA's legislative and regulatory recommendations for the HOME Investments Partnership Program. Many of these recommendations have been endorsed by a broad coalition of state, local and non-profit organizations and were included in the Housing and Community Development Act of 1993, S. 1299. In addition, HUD has expressed its support of these statutory improvements to the

HOME program. We are therefore extremely pleased that the Committee has chosen to include many of these provisions in its legislation, H.R. 3838. Mr. Chairman, at this time, I would like to briefly highlight our recommendations in my testimony.

As stated earlier, we are in favor of practically all of the proposed changes to HOME included in H.R. 3838.

**Some of these provisions, include:**

**Uniform Match Requirement:** Establishment of a flat match of 25 percent for all HOME-funded projects.

**Simplification of Income Targeting:** Rather than using "the percentage of funds expended" as the basis for determining whether a jurisdiction is meeting its rental housing income targeting requirement, it will utilize "percentage of units assisted."

**Change in the Requirements for First-time Homebuyer:** Delete the current statutory requirement that all low-income homebuyers be "first-time".

**Usage of Recaptured Homeownership Funds:** Modify the requirement for homeownership recapture, so that the funds may now be used for any HOME-eligible activity.

**Environmental Review by States:** Allow states to delegate the performance of environmental reviews to localities.

**State Administration of HOME:** Expand the definition of "State" under HOME to include "or instrumentalities thereof".

**Audit Requirement:** Eliminate the provision requiring an outside HUD audit of HOME.

**Use of CDBG Funds for HOME Program Expenses:** Amend the CDBG eligible expenses to include reasonable administrative costs and charges related to administering HOME. Alters CDBG eligible project delivery costs by defining housing consulting as counseling for tenant based rental assistance and affordable housing under the HOME program. Strike the requirement that project delivery costs are subject to the 20% administrative cap under CDBG.

We would also encourage the House to consider including several additional provisions as well. They are listed below:

**Monitoring Requirements:** Replace the current requirements for an annual on-site review of each rental project funded with HOME funds, with a requirement that PJs develop a monitoring plan for HOME rental projects initially and thereafter every three years, performing an on-site comprehensive financial and management review complemented by an annual desk review of tenant files and financial statements. This provision would bring the HOME and the Low-Income Housing Tax Credit monitoring requirements into uniformity, as well as ease the administrative burden and cost of annual on-site monitoring.

**Use of HOME Funds as a Short Term Construction Guarantee:** Amend the statute to permit HOME funds to be used for construction loan guarantees for single multifamily housing.

**Long Term Loan Guarantee Program:** Amend the statute to authorize a long term guarantee program under HOME, comparable to the Section 108 loan guarantee program under CDBG, to allow PJs to undertake large scale rental projects.

**Threshold for Local Participation:** In 1992 the Housing and Community Development Act lowered the program thresholds to provide such that, in any year Congress appropriated less than \$1.5 billion to the HOME program, a jurisdiction must receive at least \$335,000 by formula and meet a minimum allocation threshold of \$500,000 in order to participate. We support the provision to return the threshold to the original \$500,000 mark, while holding harmless those participating jurisdictions which qualified for HOME funds under the current threshold provisions. This provision was included last year in S. 1299 and NCDI believes that with 435 state and local PJs already participating in the HOME program (88 new PJs qualifying for FY94 alone) that the establishment of consistency and continuity is in the best interest of the program at this time.

**Davis/Bacon Trigger in CDBG/HOME:** NCDI supports conforming the CDBG and HOME program requirements regarding the number of housing units necessary to activate Davis-Bacon, from 8 units for CDBG to 12 units, as for HOME.

Mr. Chairman, we also commend the Subcommittee on the authorization of \$2.2 billion in FY95 and \$2.3 billion in FY96 HOME funds and fervently support these authorization levels. However, we would request that the Committee reconsider the inclusion of a \$25 million set-aside off the top of the HOME allocation for the National Community Development Initiative (NCDI). Although we certainly agree with the value of increasing the capacity of those local governments, states and community development corporations (CDCs) that operate the HOME program, we are not in favor of such a provision at the expense of the overall HOME allocation. NCDI believes that the existing set-aside of \$14 million for the



capacity building of nonprofits and CDC's is adequate at this time and discourages the House from any further set-asides to the HOME program.

Mr. Chairman, we are hopeful that HOME will one day become a well-recognized and effective housing block grant program as envisioned during its creation. The new Administration's strong support for the HOME program and the HUD Secretary's commitment to making HOME more responsive and flexible for states and local governments, clearly signals a new beginning for the HOME program.

Mr. Chairman, local governments are ready to work with you and members of the Subcommittee to ensure and facilitate effective and efficient administration of HOME at the local level. We thank you again for the opportunity to present the views of NCDA and its members on the HOME program. We look forward to your continued support and leadership in addressing the critical affordable housing needs of our communities.

## MULTIFAMILY HOUSING PROPERTY DISPOSITION

Mr. Chairman, I would also like to take this time to extend NCDA's support for your efforts and those of the Administration, to expedite the reforms of HUD's multifamily housing property disposition program. We are very supportive of the provisions originally proposed in S. 1299 and H.R. 3838, to assist HUD in more effectively disposing of its inventory of foreclosed multifamily properties. The legislation provides a positive solution to reducing the backlog of HUD-owned properties, while still ensuring that those HUD-held properties which are sold are done so in a manner that is beneficial to both the residents of the properties and the communities in which they live. We encourage you to move this legislation quickly in order to begin the immediate resolution of this most critical issue.

## CONCLUSION

We thank you again, Mr. Chairman, for the opportunity to present the views of the National Community Development Association on reauthorization of the Community Development Block Grant, HOME Investments Partnership Program and other important federal programs designed to improve the lives of our low and moderate income citizens. We look forward to your continued support and leadership in addressing the critical community development and affordable housing needs of our communities.

## 1994 LEGISLATIVE AND REGULATORY AGENDA FOR HOME

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The following list of 1994 legislative and regulatory proposals for the administration and Congress grew out of discussions with our allied organizations and a HOME survey of NCDA's membership earlier this year. While this document attempts to address a number of the HOME legislative and regulatory concerns raised by the national organizations representing local elected officials, we may expand this list at a later date. During the upcoming reauthorization, we will be working with our respective leadership and membership as well as the Congress and the administration to develop recommendations for the enhancement of the HOME and CDBG programs.

### Reauthorization/Legislative Changes to the HOME Program:

(\* = Those changes proposed in the Community Development and Housing Act of 1993, S. 1299.)

**\*1. Uniform Match Requirement:** Replace the two-tiered 25%/30% non-federal matching requirement with a flat 25% uniform match. Modify the automatic match waiver to eliminate the phased reduction of either 50% or 100%. Communities should be able to qualify for a complete 100% waiver if they meet either of two distress criteria: poverty or per capita income; and

**2. Rent Calculations:** Replace the existing requirement that eligible rental housing bear rents not greater than the less of existing Fair Market Rent (FMR) or an amount not exceeding 30 percent of the adjusted income for a family whose income equals 65 percent of the area median, with a requirement that a rent not greater than the FMR may be charged. This would increase the program's flexibility and allow it to be used with Section 8. In the event that HOME is used with another program with a more stringent rent requirement, like the Tax Credit, that standard would have to be used.

**3. Targeting Requirements for Rental Housing:** Delete the present requirement that a HOME-assisted project must have at least 20 percent of the units set-aside for those at 50 percent of median income or less; replace the current program-wide targeting of 100 percent of the funds at 80 percent of median or less, and 90 percent of the funds at 60 percent of median or less, with a requirement that 100 percent of the funds be spent on activities which benefit those at 80 percent of median or less. This change would conform the rental housing targeting to that which applies to ownership housing and it would make it as relatively easy to do rental housing as it is to do ownership housing. While this change would make the program more flexible, it would still require that when used with another program with deeper targeting that targeting be met. It is anticipated that in the absence of a targeting requirement below 80 percent of median that deeper targeting would still be achieved, which was the experience under the HoDAG and Rental Rehabilitation programs.

**\*4. Calculate Targeting by Units Assisted Rather Than Funds Spent:** Rather than using "the percentage of funds expended" as the basis for determining whether a jurisdiction is meeting its rental housing income targeting requirement, it is proposed that HOME utilize the "percentage of units assisted" to determine compliance with the

income targeting provision. With this change, the income targeting requirements would now dictate that at least 90 percent of the units assisted (rather than funds invested) must be occupied by families whose incomes do not exceed 60 percent of the median family income for the area and the remaining units (rather than funds invested), up to 10 percent, must be by families below 80 percent of median income.

This change in the existing requirements will restore rationality and simplicity to the income targeting provision, without altering the original intent of the provision. By using the "percentage of units assisted" rather than the "percentage of funds" to determine compliance with the income targeting provision, PJs will no longer have the difficult task of tracking the HOME rental money, but can more easily track the HOME units assisted.

**5. Monitoring Requirements:** Replace the current requirement for an annual on-site review of each rental project funded with HOME funds, with a requirement that PJs develop a monitoring plan for HOME rental projects meeting the following requirements: monitor HOME rental projects initially and thereafter every three years, performing an on-site comprehensive financial and management review, complemented by an annual desk review of tenant files and financial statements. In the case of HOME/Tax Credit projects, the credit allocating agency monitoring requirements would suffice. This provision would bring the HOME and the Low-Income Housing Tax Credit monitoring requirements into uniformity as well as ease the administrative burden and cost of annual on-site monitoring.

While we recognize the importance of thorough monitoring of the HOME program, we do not believe that such onerous requirements are necessary to insure appropriate management of the program. This provision allows for an initial monitoring the first year, in order to provide a base line, but then recognizes that subsequent annual on-site reviews are unnecessary and inefficient.

**6. CHDO Activities:** Permit CHDOs to undertake any eligible HOME activity within the CHDO set-aside funds. This would enable them to undertake housing rehab. and administer tenant assistance programs in addition to housing development.

**\*7. Recapture of Funds Used for Homeownership:** Modify the requirement that funds used for homeownership, which are recaptured by the PJ, must be used only for homeownership, and allow for use for any HOME-eligible activity. This will increase the program's flexibility.

**\*8. Change in Requirements on Low-Income Homebuyer:** Delete the current statutory requirement that all low-income homebuyers must be "first-time homebuyers." Even though the current HOME definition of "first-time homebuyer" was considered broad, the exceptions established as a result of the Housing and Community Development Act of 1992 and regulations (24 CFR 92) created a

complicated and difficult method of determining eligibility. HUD concluded that the complexity of the "first-time" requirement had rendered it ineffective and should therefore be deleted.

**9. Use of HOME Funds as a Short Term Construction Guarantee:** Amend the statute to permit HOME funds to be used for construction loan guarantees for single and multifamily housing. Using HOME funds to guarantee private construction loans will leverage additional construction activity without actually spending the funds.

**10. Long Term Loan Guarantee Program Within HOME:** Amend the statute to authorize a long term loan guarantee program under HOME comparable to the Section 108 loan guarantee program under CDBG in order to allow Participating Jurisdictions (PJs) to undertake large scale rental projects.

**11. Use of HOME Funds for Program Administration:** Clarify that the 10 percent of a PJs allocation which can be used for program administration applies to the funds until they are expended. This is a technical change which would conform the statute to what is current practice.

**\*12. Threshold for Local Participation:** Modify the statute by eliminating the provision which reduces the threshold to \$335,000 for direct local funding whenever the HOME appropriation falls below \$1.5 billion and return the threshold to \$500,000, while holding harmless those participating jurisdictions which qualified for HOME funds under the current threshold requirements in order to establish some consistency and continuity to the HOME program. (Current statute provides a threshold of \$500,000 for direct local funding for HOME except for when the HOME appropriation falls below \$1.5 billion, then the threshold drops to \$335,000.)

**\*13. Environmental Review by States:** Modify the statute to allow States to delegate the performance of environmental reviews to localities (state recipients). Under CDBG and the former Rental Rehabilitation program, States may delegate responsibility for environmental reviews to the local level. This reflects the fact that localities are often the best equipped to review projects in their jurisdictions.

**\*14. State Administration of HOME:** Expand the definition of "State" under HOME to include "or instrumentalities thereof". HUD regional offices have precluded two state housing finance agencies (HFAs) from acting directly as the State under HOME, on the basis that their enabling legislation established them as separate instrumentalities from the State.

**\*15. Deletion of Outside HUD Audit of HOME:** Eliminate the current provision under Title II which requires HUD to contract with an outside auditor for an annual financial review of the HOME program. All federal programs, in accordance with



federal law, are required to conduct an outside audit, therefore making this requirement both duplicative and unnecessary.

### **Regulatory Changes to the HOME Program:**

1. **HOME Activity Delivery Costs:** Conform the treatment of activity delivery costs under the HOME program to that under the CDBG program, i.e., allow them to be charged to the eligible activity with which they are associated. In addition, include the cost of monitoring project compliance as an eligible delivery cost.
2. **Definition of HOME Project:** Permit Participating Jurisdictions (PJs) the flexibility to define what constitutes a HOME project rather than limiting a project to site(s) or building(s) within a four block area.
3. **Use of HOME Funds for Initial Project Operating Reserves:** Remove the restriction in the regulations which limits funding for a projects operating deficit reserve during rent-up to 18 months. Instead of an arbitrary time limit, PJs should be required to maintain evidence of an agreement with the mortgage lender that funding for such a reserve, once no longer needed, will be returned for use in HOME-eligible activities. This would facilitate use of HOME funds in risk-sharing arrangements by PJs. Not only should this be permitted for new construction and sub rehab projects, but for mod rehab projects as well.
4. **Increase in FHA Mortgage Insurance Limits:** Immediately publish the 20 percent increase in the 221(d)(3) multifamily mortgage insurance limits (which establishes the maximum HOME subsidy limit) authorized by the 1992 amendments in order to allow use of the higher limits for HOME-assisted rental housing. This increase is critical to making projects feasible in high cost areas.
5. **Equity Investments for Project Financial Work-outs:** Clarify that equity investments made as part of the financial work-out of an existing low-income housing project are an eligible use of HOME funds. The current regulations require the property to be acquired, rehabed, or constructed in order for HOME funds to be used. This is an unnecessary requirement and may undermine use of HOME funds to preserve affordable housing where it is appropriate.
6. **C/MI System Projects:** Permit PJs to establish as projects with the Cash and Management Information System (C/MIS) homeownership, including rehabilitation, programs rather than a separate project for each household assisted.
7. **Pre-environmental Clearance Cost** - Make pre-environmental clearance activity costs reimbursable activity delivery costs in order to permit PJs to undertake them. Under current HUD interpretation, costs associated with pre-environmental clearance (NEPA) activities may not be reimbursable for specific projects. Only costs associated

with post-NEPA clearance would be reimbursable. Therefore such costs as appraisals, environmental (lead/asbestos) inspections, energy calculations, architects, civil engineers, outside consultants to do market studies cannot be charged to the project, if the NEPA clearance has not been approved. PJs, developers and nonprofits depend on these activities to move forward on projects; however, if such expenses are not reimbursable, then prospective projects will not be pursued.

**8. Additional Forms of Matching Contributions:** Clarify that the difference between acquisition cost and the appraised value of land or other real property, acquired with or without federal resources, is eligible match. The regulations currently allow such a differential to count in the case of properties acquired from RTC for affordable housing. Also consider owner contributions as match, in terms of land, owner investment or private debt.

**9. Projects out of Compliance:** Clarify that, in the event that a project which a PJ funds falls out of compliance with the requirements of HOME, the jurisdiction shall first seek to return the project to compliance, than if necessary make reasonable efforts to see that the project developer repays the HOME subsidy; but in the event that the developer/owner cannot repay the subsidy, permit HUD to reduce future grants but not require the jurisdiction to repay such subsidy to its HOME trust fund or to HUD.

**10. Housing Quality Standards and HOME-Assisted Housing:** Exempt housing units receiving \$5,000 or less in HOME funds for weatherization, emergency assistance, home repair, or accessibility from Section 8 Housing Quality Standards. This would permit PJs to address emergency or life threatening problems, or prevent further deterioration of a unit.

**11. Environmental Review:** Provide an exemption from the requirements for rehab or one to four units and all owner-occupied rental and homeownership projects and provide flexibility by permitting one environmental review for projects receiving both HOME and CDBG funds. Where the HOME program determines a project to be rehab for environmental review purposes, allow that determination to supersede that of HUD's environmental review staff.

**12. CHDO Operating Funds:** Clarify that, at the discretion of the PJ, the up to 5 percent of its allocation which may be made available for CHDO operating assistance may be taken from within or outside the CHDO set-aside.

**13. Drawdown of HOME Funds:** Increase from 15 to 30 days the time frame within which funds drawn down must be spent. The 15-day time limit is particularly burdensome for urban counties and consortia which deal with multiple subrecipients.

**14. Definition of Net Proceeds for Homeownership:** Clarify that the definition of net proceeds includes improvements made to the property by the owner.

**15. Spending HOME Funds:** Clarify that PJs may commit FY93 HOME funds prior to having fully committed FY92 funds in order to permit them to take advantage of opportunities such as the acquisition of land for affordable housing. Also eliminate the provision that program income must be spent before further funds are drawn down for the same reasoning.

**16. C/MI System For Tenant Assistance:** Eliminate the requirement that specific information (social security number, amount of tenant contribution, amount of subsidy) be provided up front on each tenant to be assisted with HOME funds, requiring instead that such information be contained in the completion report. PJs should be required to indicate up front the number of tenants expected to be assisted and the total amount of subsidy expected to be provided.

**17. C/MI System and CHDOs:** Allow CHDO projects to be set-up in the C/MIS (therefore show them as a commitment) prior to complete CHDO identification of all financial sources and/or completion of approval/filing as a CHDO. This would enable PJs to commit their CHDO monies faster rather than waiting for the lengthy CHDO approval process.

**18. Limitation on Use of HOME With FHA Mortgage Insurance:** Remove the requirement that the HOME affordability period corresponds to the term of an FHA insured mortgage when HOME funds are used in connection with housing financed with a mortgage insured by HUD. HOME affordability requirements should prevail.

**19. Property Value Limits:** Allow local jurisdictions to base property value limits on the area median purchase price as provided in the statute.

**20. Definition of Affordable for Subsequent Low-Income Borrower:** Eliminate the regulatory requirement that first-time homeownership units be made affordable to the subsequent low-income buyer at a price that is 30% of 75% of median income. The statute requires that the unit be affordable but does not specify the actual amount. PJs should be given the option to define what is affordable to another low-income purchaser.

**21. Definition of SRO under HOME:** Conform HOME's definition of Single Room Occupancy (SRO) projects to that used in other federal programs such as the McKinney Homeless and Shelter Plus Care programs, thus allowing HOME to be used in combination with these programs.

March 16, 1994, hearing held by the  
Subcommittee on Housing and Community Development,  
entitled "H.R. 3838, Housing and Community  
Development Act of 1994"

QUESTIONS FROM CHAIRMAN HENRY B. GONZALEZ TO  
MR. DANIEL P. HENSON, III

1. What are your suggestions as how to promote the amount of economic development activities conducted by CDBG recipients. Will the UDAG recaptures, which may provide the Department with only \$100 million in extra funding, used in conjunction with the section 108 loan guarantees reduce communities' reluctance to engage in economic development activities with section 108 loan guarantees.

Are local community development agencies aware of the section 108 program and its requirements? Do they have the capacity to create viable loans arrangements with other organizations or is greater technical assistance needed to assist them? Do you feel as if HUD has the capacity to review these loan applications and make a informed judgement as to whether they are worth the risk?

2. In your estimation, what hinders communities from conducting economic development activities? Is legislative or regulatory change necessary to increase communities' participation in economic development activities?

3. How do you feel about increasing the public services cap in the CDBG program?

4. In your testimony you recommend that HOME funds be used as a credit enhancement for conventional loans and that HOME funds be used for housing as CDBG funds are used under the Section 108 loan guarantee program.

Can you elaborate on these two ideas?

5. Many of your examples of HOME fund usage are single family programs. Now that the regulations are being eased, with the changes proposed in this year's housing legislation, and with the permanent extension of the low income housing tax credit, do you believe more communities will use HOME funds for multifamily housing? Will communities put HOME funds to acquire properties under a reformed multifamily property disposition program?

6. Can you comment on CHDO activities, their expenditure rates, and capabilities? Are participating jurisdictions still having difficulties in identifying CHDOs?

7. How often are HOME funds being used for tenant based rental assistance?

8. In your testimony you have noted HUD's interpretation of statutory provisions concerning match. Can you give us other examples of regulatory "over interpretation"--not now but in writing, so that if necessary we can reaffirm Congressional intent?



(MR. HENSON)

April 18, 1994

The Honorable Henry B. Gonzalez  
Chairman  
House Committee on Banking and Urban Affairs  
B-303 Rayburn House Office Building  
Washington, D.C. 20515

Dear Mr. Chairman:

First let me thank you again for the opportunity to appear before your Subcommittee to testify on behalf of the National Community Development Association (NCDA) and the National Association of Housing and Redevelopment Officials (NAHRO) on March 16 concerning the reauthorization of the Community Development Block Grant Program (CDBG), Home Investment Partnership (HOME) Program and other key federal housing and community development programs.

I am writing in response to the questions that were raised during the hearing regarding the use of the Community Development Block Grant Program (CDBG) for economic development activities, the Section 108 Loan Guarantee program and the HOME program.

**1) and 2) What are your suggestions as how to promote the amount of economic development activities conducted by CDBG recipients? In your estimation, what hinders communities from conducting economic development activities?**

There is a certain inherent bias against economic development in the regulations as well as in the legislation. From information obtained from members, it appears that the majority of the Economic Development activity conducted with CDBG money is at the market demand of the business community pushing a City or State into an Economic Development project as opposed to the outreach effort by the Cities or the States to provide CDBG money for economic development.

The three major regulatory issues for Economic Development projects with CDBG are, eligibility, national objectives and "appropriate" underwriting.

### Eligibility:

We believe that there are no major structural problems with eligibility. In fact, Economic Development activity is probably under reported since HUD requires some activities to be categorized elsewhere. For example, you will find utility extensions under "Public Facilities", work training programs and transportation programs under "Public Service". Therefore, to remove one barrier to Economic Development would be to remove the Public Service cap for those projects that qualify as Economic Development related, such as day-care in industrial parks, employer-sponsored car pools for transportation, and most importantly, work training programs. A final point under "Eligibility" is the need for regulatory relief regarding technical assistance and certain administrative costs directly related to Economic Development.

Despite recent changes, more effort is needed in this arena as numerous experiences around the country indicate. Small businesses' most effective financial assistance should be accompanied by appropriate technical assistance, otherwise the loans or other assistance is not useful and the national objectives frequently under achieved.

### National Objectives:

Economic Development is best accomplished under the "Slums and Blight" category of eligibility. This is an "up-front" satisfaction of regulatory requirements. Potential employers (CDBG loan recipients) are fearful of the on-going loan default downside of failure to meet job creation projections. However, many communities reach their 30% limit on "Slums & Blight". The 30% limitation should be waived for Economic Development projects.

CDBG is more difficult to use for job RETENTION than for job CREATION. This is due to qualifying household income that must include the current income of the job loss candidate. The regulations provide more benefit to a worker unemployed for one day, after his/her employer has left the City or gone under. Sadly, an employer can be assisted with CDBG easier if he/she fires all employees - rather than retain them - and create or rehire new ones!

Current HUD memos on appropriateness are mystifying and unclear, especially regarding the issue of what's regulation, what's legislation, and what's "safe harbor". The "Safe Harbor" memo guidance overlaps between national objectives, eligibility and "appropriateness".

Most Economic Development is done under new job creation for low/moderate income persons. Although "best faith efforts" to hire low/moderate persons is permitted in regulations, vis-a-vis actual creation of low/moderate jobs, the small business reporting is so burdensome that frequently business will not agree to a well-drawn loan document that incorporates federal regulations. A recent legislative change, allowing the definition of low income person to include those residing in enterprise zones or low/moderate income neighborhoods provides some relief. However, the best relief would have been exempting the business that locates in the enterprise zone and/or low/moderate income neighborhood in entirety. By virtue of its location, it should be exempt from other national objectives, such as jobs or service to low/moderate income persons.

### **Appropriate Underwriting:**

- >> Small businesses and small loans are not exempt from the appropriateness tests.
- >> For larger businesses and loans, the "appropriateness" test requires clarification on the rate of return issue, which both confuses and deters large investors willing to invest in low income neighborhoods.
- >> The "Appropriate" underwriting requirement is too cautious on the issue of cost reasonableness, but too lax on conflict of interest created by "identify of interest" relationships (e.g., overlapping ownership in buyer and seller of real estate equipment and services).

The "inconsistent interpretation of rules by HUD's headquarters and field offices" and the "gotcha" mentality of HUD staff are complaints frequently cited by our members to explain their lack of participation in CDBG funded economic development activities. Both of these charges are supported by the recently released General Accounting Office (GAO) report on utilizing CDBG for economic development activities.

The GAO report further identifies the requirement of the Davis-Bacon Act, a law that determines wage rates for federally assisted construction projects as a disincentive to use CDBG as an economic development tool as it drives up the cost of projects to where they become prohibitive for many communities. Additionally, Davis-Bacon discourages the use of minority and women owned businesses because of the increased administrative expense associated with completing a project.

In an effort to help decrease the cost of many smaller construction and rehabilitation projects in communities across the nation, NCDA recommends that Congress approve the provision contained in the "Davis Bacon Act", (H.R. 1231)

pending in the House that is designed to increase the federal contract dollar threshold for triggering the Davis-Bacon Act from \$2,500 to \$100,000. NAHRO recommends both a raising of the dollar threshold and inclusion of a percentage threshold so that there is one-fourth or one-third federal funding in a project before Davis-Bacon is triggered. This is reflected in H.R. 2042.

NCDA and NAHRO both support conforming the CDBG and HOME program requirements regarding the number of housing units necessary to activate Davis-Bacon, from 8 units (CDBG) to 12 units (HOME).

With the draft guidelines for economic development, mandated by the Housing and Community Development Act of 1992, HUD has responded to many of the concerns expressed by NCDA, NAHRO and other organizations by providing increased flexibility within the CDBG program for economic development. Once adopted, we believe these regulations will make it more feasible for grantees to undertake economic development projects and activities with CDBG funds, which will lead to an expansion of economic opportunity for low and moderate income persons as well as greater economic self sufficiency.

Additionally, CDBG program funding levels for communities is not sufficient to meet all the community's needs. Grantees must prioritize eligible activities based upon local conditions and available resources to meet those needs. The total amount of CDBG funding for entitlement communities has only risen by \$12.5 million from \$2.219 billion in 1975 to \$2.344 billion in 1992, while the number of entitlement communities has jumped from 594 in 1975 to 889 in 1992.

It is important to note that to obtain a true picture of the level of economic development activity at the local level, do not look solely at CDBG. Communities are also utilizing Economic Development Administration (EDA) programs and local revenue. Increased effort needs to be made between HUD and EDA as well as other federal agencies to assure that these very different economic development programs can be used in a complementary fashion.

**1b) Will the UDAG recaptures, which may provide the Department with \$100 million in extra funding, used in conjunction with the Section 108 Loan Guarantee program, reduce communities reluctance to engage in economic development activities with the Program?**

Both NCDA and NAHRO support the administration's proposal to expand the Section 108 Loan Guarantee program by using recaptured UDAG funds for communities to finance a portion of qualifying economic revitalization activities. However, it is unclear if the \$100 million HUD anticipated recapturing from UDAG projects to be utilized to write down interest rates or to assist grantees to set up a loan loss reserve, will be enough to encourage the expanded use of the



program.

NAHRO also supports the Amnesty proposal contained in the housing bill recently adopted by the House and Senate and signed by the President. This provision recognizes that many communities that have outstanding UDAG funds still have distressed conditions and should be given an opportunity to design new programs with flexible regulations before the funds are recaptured and offered to others.

The Section 108 Loan Guarantee Program provides communities with a source of financing for housing rehabilitation, economic development and large scale physical development projects. The principal security for the loan guarantee is a pledge by the applicant of its current and future CDBG funds.

Economic Development activities carried out with the proceeds from loans guaranteed under the Section 108 Loan Guarantee program must meet the same requirements that apply to the use of other CDBG funds. Accordingly, before using guaranteed loan funds to assist a for-profit business, the grantee must make the determinations outlined in this memorandum. In addition, the grantee must include in its application for loan guarantee assistance a narrative statement explaining how the proposed activity meets a national objective of the CDBG program.

Unlike activities assisted with other CDBG funds, HUD will perform an "up front" review of compliance with the CDBG program's eligibility and national objectives requirements. HUD central staff appear to understand the project and work with applicant's also, however field and regional staff are often ill-equipped to review the underwriting of such 108 Loan Guarantees.

There are several reasons why communities do not participate in the Section 108 Loan Guarantee Program, fear of "mortgaging" their future CDBG funds and lack of organizational capacity to package the Section 108 deals, as well as the previously mentioned regulatory limitations of the CDBG program for economic development.

In an effort to increase awareness of the Section 108 Loan Guarantee Program, HUD has developed a two-day training session to be made available in all ten HUD regions. This effort is designed to explain the program and encourage grantees to utilize the program as an economic development tool.

### **3) How do you feel about increasing the public services cap in the CDBG program?**

Currently, public services under CDBG are limited to 15% of a community's annual grant plus program income. Public services include, but are not limited to:

public safety programs, child care, job training, services for the elderly and handicapped, crime prevention and recreational services. NCDA policy supports a small expansion of CDBG public services from the current 15% to 20%.

This policy is consistent with both the United States Conference of Mayors (USCM) and the National League of Cities (NLC). This slight increase will enable communities to integrate their physical development activities with a measure of social services support. While NAHRO supports the integration of physical development with social services support, NAHRO has taken a position opposing the increase in the public service cap because of a fear that it will lead to a reduction in funding for other programs for similar activities. Increasingly, CDBG is being viewed by federal officials as the answer to all problems, from crime to safety to economic development, literacy and welfare reform; and yet the funding level of the program has not increased commensurately. NAHRO foresees a similar situation can be anticipated with the increased focus on CDBG for economic development. We believe that this new HUD emphasis is leading to less federal and Congressional support for the EDA and other programs, which will further squeeze the resources available to the local government. If we really want to combat poverty, we need to restore funding for programs like CSBG, JTPA, health care, and other human services programs.

NAHRO believes it is misguided to think that a relatively small program like CDBG is the appropriate vehicle to deal with the massive causes of poverty -- lack of adequately funded nutrition, health, education, job training and employment opportunity programs -- all of which have been significantly cut over the last 10 years.

NAHRO wants to see the problems of poverty addressed in our nation. But the proposal to make CDBG an anti-poverty program simply ignores the origins and intent of the program as a tool provided to local governments allowing flexibility to address a wide variety of **locally-defined** needs for neighborhood stabilization, economic development and to combat physical deterioration in our communities while also providing a limited level of human services support.

**4) In your testimony you recommended that HOME funds be used as a credit enhancement for conventional loans and that HOME funds be used for housing as CDBG funds are used under the Section 108 loan guarantee program. Can you elaborate on these two ideas?**

NCDA and NAHRO, as well as several other national organizations representing state and local elected and appointed officials have recommended that HOME funds be used as short term and long term guarantees. Below are expanded explanations for each of these ideas.

### 1) Use of HOME Funds as a Short Term Credit Enhancement

The statute is silent on whether HOME funds can be used as a credit enhancement to leverage financing from private lending institutions. To date, HUD has taken the position that this is not a permissible use of HOME funds. We recommend that the statute be amended to explicitly authorize Participating Jurisdictions (PJs) to use HOME funds to provide a guarantee or insurance for all or a portion of such non-federal financing for a limited period of time to support HOME-assisted single and multifamily affordable housing.

Under this proposal, a PJ could guarantee all or some portion of a loan made by a lender for a HOME-assisted single or multi-family project. The guarantee could be for a short term, to be determined by the PJ and lender, and could cover the undue risk of construction (rehabilitation) in the case of single family housing or construction (rehabilitation), rent-up and a year or two of occupancy for multifamily rental housing. The guarantee would constitute a pledge of some or all of the PJs current year allocation. The amount of the guarantee could decline over the term of the loan. The PJ would not draw down the funds for the guarantee, but it would reserve the amount in its HOME Investment Trust Fund. Only in the event of a default would the funds be drawn down. Fannie Mae and Freddie Mac could be encouraged to buy these permanent loans.

### 2) Long Term Guarantee Program Within HOME

There is a need for Participating Jurisdictions (PJs) to be able to leverage future year allocations of HOME funds in order to significantly expand the number of units which can be financed in any year. This proposal is modeled after the Section 108 loan guarantee program in CDBG. The program could work in two ways:

- a) PJs could provide guarantees for loans on HOME-assisted single family and multifamily housing. This loan guarantee would be sufficiently flexible to cover construction and permanent financing, homeownership and rental housing, taxable and tax-exempt financing, partial and full coverage against losses, and short- and long-term guarantees. The guarantees would be backed by the Jurisdiction's future HOME allocations. Jurisdictions could provide guarantees in an aggregate amount up to five times their annual allocation. No HOME funds would be drawn down unless the loan goes into default. Fannie Mae and Freddie Mac could be encouraged to buy permanent loans guaranteed under this authority. This option would require federal loan guarantee authority.

Under this option a PJ would issue a loan guarantee to a project lender. The guarantee would be backed by a stand-by loan agreement between the PJ and

HUD. Under the agreement, HUD would cover any claims on the guarantee by issuing notes on behalf of the PJ that would be repaid, with interest, from the Jurisdiction's future HOME allocations. This could be done over a period of time up to thirty years. However, no funds would be drawn down unless the loan goes into default. If a call is made on the stand-by loan agreement, the repayments to HUD would be subject to HOME's matching requirements. In addition, fulfillment of a guarantee obligation would not be treated as a refinancing, nor would it be subject to the prohibition against investing HOME funds in a project prior to the termination of the use restrictions.

- b) PJs could borrow against their future HOME allocations to provide an up-front capital subsidy (equity contribution) to reduce the rents on a multi-family project to make them affordable. Under this approach HUD would guarantee notes issued by a PJ which would be repaid in annual increments from the Jurisdiction's future HOME allocations. Used in this fashion a sufficient amount of HOME funds could be aggregated to undertake either large-scale projects or engage in substantial production of units. This option would require federal guarantee authority.

**5) Many of your examples of HOME fund usage are single family programs. Will communities put HOME funds to acquire properties under a reformed multifamily property disposition program?**

With the passage of the "Multifamily Housing Property Disposition Reform Act of 1994", which included legislative provisions, such as the changes to the match requirement for new construction and the simplification of the income targeting; the improvements included in the Fifth Interim Rule, such as the modifications in match eligibility, allowance for floating units, and the relaxation of rental housing monitoring; and, the permanent extension of the low income housing tax credit. We believe that communities nationwide will continue to use a substantial amount of HOME funds for multifamily housing and rental housing and may increase the level of activity to some extent.

Currently, consistent with the primary intent of the HOME program, a majority of the funds are already used for rental housing projects - 60.4%, according to the latest HUD figures for FY92 HOME funds. In addition, PJs are showing a commitment rate of 20.5 % for new construction activities, a substantial increase from earlier statistics. These figures, together with the figure that shows that only 3.0% of the funds are going to tenant-based rental assistance, indicates that the HOME program is providing sufficient funding in the construction or rehabilitation of rental projects so as not to require additional subsidies. This is an especially important fact given that 88.5 % of the rental units are going to tenants at or below 50% of median income.



With the recent legislative and regulatory changes to the HOME program and the low income tax credit program, some communities may increase the level of multifamily housing activity, new construction and property acquisition, particularly since larger projects, HOME funded or otherwise, often require the use of low-income tax credits as well, to make them work. However, there is not likely to be a substantial increase in multifamily activities since communities are already using a majority of their HOME funds for such projects. In addition, communities continue to need increased funding for multifamily, large scale construction or rehabilitation projects. It is also important to remember that one of the best features of the HOME program is its flexibility to serve the housing needs of a particular community, be those needs for rental property or first-time homebuyer assistance.

NCDA and NAHRO members have expressed interest in using the HOME program along with other programs to acquire properties under the reformed multifamily property disposition program. But problems have been identified in the site and neighborhood standards, which restrict use of HOME and other federal dollars in "impacted areas", because this restriction limits the government's ability to use HOME and other programs to invest in distressed areas through the property disposition program and other similar efforts. These problems aside, some communities are already acquiring HUD properties and are anxious to do more under the reformed multifamily property disposition program. In fact, NCDA has been working with Assistant Secretary Nicolas Retsinas and his staff to help make all of FHA's programs more accessible and desirable to local governments.

**6. Can you comment on CHDO activities. Are PJ's still having difficulties in identifying CHDO's?**

The activities of the Community Housing Development Organizations (CHDOs) under the HOME program got off to a slow start, due partially to the longer development time of a CHDO owned or managed project and the capacity building required for new and existing CHDOs. However, the activity level has picked-up substantially and according to HUD, 16 percent of the FY92 funds allocated for HOME are currently reserved for CHDOs, and 18 percent of the total have actually been committed to CHDO projects.

These figures exceed the 15 percent for CHDO's required by law and a break down of the numbers below show that in certain HOME activity areas CHDOs are being used well beyond the required amount. For example:

The amount of HOME funds Committed to CHDOs for  
Rental Activities is :

25 Percent

The amount of HOME funds Committed to CHDOs for First-Time Homebuyer Programs is:	27 Percent
The amount of HOME funds Committed to CHDOs for New Construction is:	25 Percent
The amount of HOME funds Committed to CHDOs for Rehab. is:	17 Percent

NCDA and NAHRO have noted an ongoing problem in several parts of the country with identifying CHDOs capable of operating the HOME program and problems with capable nonprofit organizations having difficulty transforming themselves to meet the definition of CHDO required in the HOME program. CHDOs are more prevalent in the east and California, however communities in the south, southwest and west are having more difficulty identifying and training CHDOs. Due to the fact that CHDO development is a lengthy process, particularly in areas where there is no previous history of housing nonprofits, many PJs are only now beginning to allocate their CHDO funds. More CHDO training is still needed and we encourage Congress to continue to support this technical assistance and training activity.

Although the statistics denote that only 16 percent of HOME funds are being spent by CHDOs, it is somewhat misleading since most PJs are operating some or all of their HOME program through nonprofit organizations, which do not necessarily qualify as a CHDO. NCDA and NAHRO believe that if it were possible to identify the total dollar or unit amount going to nonprofits, who do not necessarily qualify as CHDOs, a significantly different story would be told about public-private partnerships under the HOME program.

#### **7. How often are HOME funds being used for tenant based rental assistance?**

According to HUD statistics, as of March 31, 1994 only 3 percent of the HOME funding is being used for tenant-based rental assistance. Many PJs made a policy decision not to use HOME funds for tenant-based rental assistance. Some indicated that the tenant-based rental assistance requirements were onerous, although HUD has made some attempts to improve the requirements. Others were concerned about the sustainability of rental subsidies after the two years, and did not want to design a program which depended upon on-going rent subsidies. Still others did not want to duplicate an already existing system, e.g. the Section 8 rental assistance program. Frequently, PJs are using their tenant-based rental assistance to provide short-term emergency assistance for prevention of homelessness. This meets a need not met through the Section 8 program or through the McKinney programs. Many PJs wanted to "leave rental assistance to

the Section 8 program and free-up HOME funds to do the greatly needed construction and rehabilitation work." This is once again an example of HOME flexibility in allowing those communities with rental assistance needs to use HOME for rent subsidies, while allowing other PJ's to use the program for different housing needs.

The low tenant-based rental assistance figures mean that the 60.4 percent that has been committed to rental projects has been able in the significant majority of cases to bring the cost of the project to a level so as not to require on-going assistance. This is an important aspect of the value of the program.

#### **8. Examples of Regulatory "over-interpretation".**

Certainly with the passage of the "Multifamily Housing Property Disposition Reform Act of 1994" and the publication of the Fifth Interim rule, both of which reflect legislative and regulatory recommendations made last year by NCDA, NAHRO and the other national organizations representing local and state governments, the HOME program has become more manageable. We have included a list of possible regulatory changes and will be submitting, with several other national organizations some additional legislative recommendations for H.R. 3838. Further recommendations may be forth coming in the next week. Some of these regulatory recommendations identify those areas which may require reaffirmation of Congressional intent. They are so noted with an asterisk.

#### Additional comments regarding the Recommended Change to the Threshold for Participation

As stated in the testimony of March 16, NCDA and NAHRO recommend that the HOME threshold for participating jurisdictions (PJs) be returned to \$500,000 with existing PJs held harmless. The HOME threshold was changed from \$500,000 to \$335,000 for direct local funding when the FY93 appropriation was reduced to \$1.0 billion (the FY92 appropriation was \$1.5 billion). With the lower threshold, more communities qualified for direct funding and more consortia came into the program. Accordingly, local jurisdictions which qualified at the \$500,000 threshold received less funding.

In FY94, although HOME funding was increased to \$1.275 billion, the threshold of \$335,000 remained in effect because the appropriation was below \$1.5 billion. Again, more communities and consortia qualified for direct funding and local jurisdictions which would qualify at the original \$500,000 threshold received less funding.

As more and more communities qualify for the limited amount of HOME funds, other local governments will receive drastic cuts in funding. If Congress

appropriates the Administration's FY95 budget request of \$1 billion for HOME, some cities may receive about half of what they received in FY92. A return to the original threshold of \$500,000 would slow down this process, at the same time, holding harmless those communities which have already qualified at the lower threshold. We urge you to reconsider this provision.



## RESPONSE TO REPRESENTATIVE MICHAEL N. CASTLE

**1) The HUD Inspector General has reported that some communities receiving CDBG grants are not funding projects that truly benefit low and moderate income persons. Do you think it is a problem and how can we ensure that these funds go for true community development projects and are not just used as some nice extra money for cities and local governments?**

We do not believe that the problem is wide-spread. Especially in economic development activities, it has been identified by GAO that the HUD Inspector General (IG) has been overzealous in their pursuit of local governments and with an auditor's hindsight is finding problems with recipients and results that the local government could not have anticipated in the planning of the project.

Additionally, the citizen participation guidelines help to ensure that local residents are able to weigh in on decisions regarding the funding of local projects. There is an existing requirement that 70% of CDBG programs funds benefit low and moderate income persons.

Our members tell us that increased targeting will eliminate the ability to do true community development and will distort many local CDBG programs toward more direct benefit activities like housing rehab, and make it virtually impossible to carry out such "area-wide" activities as public improvements, infrastructure projects, community centers, and commercial revitalization -- activities which contribute to reviving distressed areas while also stabilizing declining neighborhoods.

**2) What is your view on the HUD application and decision process for CDBG grants? How can it be improved? Should HUD combine the CDBG and HOME application process?**

Currently HUD is completing work on a Consolidated Plan and Submission Document which will pertain to the HOME and CDBG application process, the applications for the Emergency Shelter Grant (ESG) program and the Housing Opportunities for Persons With AIDS (HOPWA) program, as well as the Comprehensive Housing Affordability Strategy (CHAS) and the non-housing Community Development Plan. The Consolidated Plan and Submission is designed to replace the current Community Planning and Development (CPD) planning and application requirements with a single submission.

NCDA and NAHRO are both supportive of the development of a more efficient and streamlined submission and the ultimate reduction of paperwork redundancy and administration for local governments. However, we are still concerned with the

process in which HUD developed the Consolidated Plan and Submission and the increased level of work the "consolidation" may actually cause. We encourage Congress to look very carefully at HUD's proposed consolidation to assess the value of the proposal and the appropriateness of its timing. We are also concerned about the proposal to address homelessness and fair housing in this same document. A document meant to be everything to everyone usually turns out to serve no one well. If such a broad change is taken with the consolidated document than further development and consideration is critical.

**3) Another criticism of the CDBG program is that it is very slow in spending funds. In 1993 there was a \$3 billion backlog in unspent and unallocated funds. How can this problem be solved?**

Congress and the Administration need to remember that CDBG is intended as a community development program, which by its nature means that the funds generally will not be 100% spent within 12 months of appropriation. The process of identifying worthwhile projects, documenting their appropriateness and who the recipients will be all take time. Additionally the citizen participation process designed to set local priorities takes time as well.

A substantial amount of CDBG program dollars fund projects which require long-term construction. The program's spendout figures reflect the nature of these projects, which require substantial amounts of time to complete. In addition, the program only permits funds to be drawn down as work progresses. Thus there is, of necessity, a pipeline of funds awaiting expenditure for projects already underway. In any event, the CDBG program does not permit a grantee to have more than 1.5 times its annual allocation in the pipeline. This 1.5 requirement reflects the 18 months needed to complete an average project.

The funds currently in the pipeline cannot be accelerated because most of them have already been obligated by local communities for specific projects. Additionally, local and federal fiscal years are not necessarily synchronized. This means that localities frequently do not make funding decisions for the CDBG program until more than six months into federal fiscal year and do not receive their funds until the fourth quarter of the federal fiscal year. HUD has pledged to get CDBG funds to the local level before the start of the local program year, which thereby permitting better planning and utilization of the program at the local level.

In terms of outlays, the amount in the pipeline is quite small. For fiscal years 1990-1992, new outlays totalled approximately 93% of the appropriations for each of those years.

**4) Do you have any views on the CDBG allocation formula? Is it fair**

**or should it be changed and in what manner?**

Congress mandated a study of the "adequacy, effectiveness and equity" of the existing formula. A report was due to Congress on July 1, 1993. To date, HUD has not forwarded its recommendation to Congress. NCDA has formed a Formula Working Group Committee to respond to the HUD recommendations when they are released. At this time, we feel it is premature to comment on the formula issue and will be happy to provide you with the NCDA organizational position, once HUD has released its recommendations.

NAHRO's primary concern with the CDBG formula is what the impact will be of using 1990 Census Data. Communities that will suffer a loss of funding under the new data need a two year partial "hold harmless" to adjust their activities. Without such a phasing in of the changes, communities will not have time to identify other resources and adjust their activities and their needy residents will be severely impacted. NCDA supports the hold harmless provision.

**5) Secretary Cisneros has proposed a LIFT program. This program would use \$200 million of CDBG funds for a competitive grant program to provide subsidies to leverage private investment in private investment in distressed neighborhoods. Is this type of program better left to state and local governments? How do you view the LIFT proposal?**

While NCDA and NAHRO applauds the Administration's effort to address a problem affecting many of our urban communities with an infusion of targeted and expanded economic development resources, we strongly oppose taking those funds from CDBG for this purpose. HUD notes in its budget documents that, "CDBG remains the most flexible community building tool to Mayors and Governors." We want to retain that flexibility by not earmarking or further segmenting CDBG. This concern was addressed by HUD staff in a meeting with national public interest groups. The groups were advised that while HUD is moving forward with the LIFT program, the funds will **not** come out of CDBG, however HUD has not yet indicated from where the funding will come. NAHRO opposes the proposal that 75% of the LIFT funding be distributed at the Secretary's discretion. This seems contrary to HUD's articulated philosophy that they want to foster decisions-making at the local level according to locally generated planning. NCDA has not developed a position on the specific elements of the proposal. We will advise members of the Subcommittee upon adoption of such a position.

**6) Do you support the proposal to make the matching requirement for HOME funds a flat 25 percent for state and local recipients?**

NCDA and NAHRO support a flattening of the match requirement to 25 percent overall. Such a provision would eliminate the previous bias against new

construction and will therefore give communities the ability to choose their HOME program activities based on local housing needs.

**7) What types of programs have you used HOME funding for?**

Most Participating Jurisdictions have used their HOME funds for an assortment of the eligible activities, including: rental rehabilitation, first-time homebuyer programs, owner-occupied rehabilitation, new construction, land acquisition and tenant-based rental assistance. The national figures show:

<u>Activity Type</u>	
Rehabilitation	70.0%
New Construction	20.5%
Acquisition	6.5%
Rental Assistance	3.0%

<u>Project Type</u>	
Rental	60.4%
Owner-Occupied Rehabilitation	25.8%
First-Time Homebuyer	13.8%

The HOME program has also exceeded the benefit targeting guidelines dictated by Congress in the original HOME legislation. According to the report issued by HUD on March 31, 1994, over 56.7% of the HOME funds expended for rental projects has gone to serve those persons at 0-30 percent of the area median income and 31.8 percent for those persons whose income falls between 31 and 50 percent of the area median. In terms of homeowner activity, the benefits are more evenly distributed with 26.4 percent of the funds serving those persons between 31-50 percent of the area median and 26 percent serving those between 0-30 percent of the area median income.

**8) Other than an increase in funding, how can the HOME program be improved to make it responsive to state and local needs?**

Certainly with the passage of the "Multifamily Housing Property Disposition Reform Act of 1994" and the publication of the Fifth Interim rule, both of which reflect recommendations made last year by NCDA, NAHRO and the other national organizations representing local and state governments, the HOME program has become more manageable. Our recommendation would be further simplification of the regulations as well as some additional technical changes to the legislation. We have included a list of possible regulatory changes and will be submitting, with several other national organizations, some additional legislative recommendations for H.R. 3838. We also suggest that similar to the effort being undertaken in the



Empowerment Zone and Enterprise Community effort, as part of the consolidated plan process HUD should permit local jurisdictions to identify regulatory waivers that would improve their ability to respond to local needs.

Again, NCDA and NAHRO appreciate the opportunity to respond in detail to the concerns of members of the Subcommittee.

Sincerely,

*Daniel P. Henson, III*

Daniel P. Henson, III  
Commissioner  
Housing and Community Development  
Baltimore, Maryland

Enclosures

### Regulatory Changes to the HOME Program:

1. **HOME Activity Delivery Costs:** Conform the treatment of activity delivery costs under the HOME program to that under the CDBG program, ie., allow them to be charged to the eligible activity with which they are associated. In addition, include the cost of monitoring project compliance as an eligible delivery cost.
- \* 2. **Definition of HOME Project:** Permit Participating Jurisdictions (PJs) the flexibility to define what constitutes a HOME project rather than limiting a project to site(s) or building(s) within a four block area.
3. **Use of HOME Funds for Initial Project Operating Reserves:** Remove the restriction in the regulations which limits funding for a projects operating deficit reserve during rent-up to 18 months. Instead of an arbitrary time limit, PJs should be required to maintain evidence of an agreement with the mortgage lender that funding for such a reserve, once no longer needed, will be returned for use in HOME-eligible activities. This would facilitate use of HOME funds in risk-sharing arrangements by PJs. Not only should this be permitted for new construction and sub rehab projects, but for mod rehab projects as well.
4. **Increase in FHA Mortgage Insurance Limits:** Immediately publish the 20 percent increase in the 221(d)(3) multifamily mortgage insurance limits (which establishes the maximum HOME subsidy limit) authorized by the 1992 amendments in order to allow use of the higher limits for HOME-assisted rental housing. This increase is critical to making projects feasible in high cost areas.
- \* 5. **Equity Investments for Project Financial Work-outs:** Clarify that equity investments made as part of the financial work-out of an existing low-income housing project are an eligible use of HOME funds. The current regulations require the property to be acquired, rehabed, or constructed in order for HOME funds to be used. This is an unnecessary requirement and may undermine use of HOME funds to preserve affordable housing where it is appropriate.
- \* 6. **C/MI System Projects:** Permit PJs to establish as projects with the Cash and Management Information System (C/MIS) homeownership, including rehabilitation, programs rather than a separate project for each household assisted.
7. **Pre-environmental Clearance Cost** - Make pre-environmental clearance activity costs reimbursable activity delivery costs in order to permit PJs to undertake them. Under current HUD interpretation, costs associated with pre-environmental clearance (NEPA) activities may not be reimbursable for specific projects. Only costs associated with post-NEPA clearance would be reimbursable. Therefore such costs as appraisals, environmental (lead/asbestos) inspections, energy calculations, architects,

civil engineers, outside consultants to do market studies cannot be charged to the project, if the NEPA clearance has not been approved. PJs, developers and nonprofits depend on these activities to move forward on projects; however, if such expenses are not reimbursable, then prospective projects will not be pursued.

**8. Additional Forms of Matching Contributions:** In the event that the current law matching requirements are not changed, clarify that the difference between acquisition cost and the appraised value of land or other real property, acquired with or without federal resources, is eligible match. The regulations currently allow such a differential to count in the case of properties acquired from RTC for affordable housing. Also consider owner contributions as match, in terms of land, owner investment or private debt.

**9. Projects out of Compliance:** Clarify that, in the event that a project which a PJ funds falls out of compliance with the requirements of HOME, the jurisdiction shall first seek to return the project to compliance, than if necessary make reasonable efforts to see that the project developer repays the HOME subsidy; but in the event that the developer/owner cannot repay the subsidy, permit HUD to reduce future grants but not require the jurisdiction to repay such subsidy to its HOME trust fund or to HUD.

**10. Housing Quality Standards and HOME-Assisted Housing:** Exempt housing units receiving \$5,000 or less in HOME funds for weatherization, emergency assistance, home repair, or accessibility from Section 8 Housing Quality Standards. This would permit PJs to address emergency or life threatening problems, or prevent further deterioration of a unit.

**11. Environmental Review:** Provide an exemption from the requirements for rehab or one to four units and all owner-occupied rental and homeownership projects and provide flexibility by permitting one environmental review for projects receiving both HOME and CDBG funds. Where the HOME program determines a project to be rehab for environmental review purposes, allow that determination to supersede that of HUD's environmental review staff.

**12. CHDO Operating Funds:** Clarify that, at the discretion of the PJ, the up to 5 percent of its allocation which may be made available for CHDO operating assistance may be taken from within or outside the CHDO set-aside.

**13. Drawdown of HOME Funds:** Increase from 15 to 30 days the time frame within which funds drawn down must be spent. The 15-day time limit is particularly burdensome for urban counties and consortia which deal with multiple subrecipients.

**14. Definition of Net Proceeds for Homeownership:** Clarify that the definition of net proceeds includes improvements made to the property by the owner.

**15. Spending HOME Funds:** Clarify that PJs may commit FY93 HOME funds prior to having fully committed FY92 funds in order to permit them to take advantage of

opportunities such as the acquisition of land for affordable housing. Also eliminate the provision that program income must be spent before further funds are drawn down for the same reasoning.

16. **Recognition of Match:** Should the existing matching requirement not be changed as recommended above, allow PJs to begin accruing match for HOME eligible activities as soon as they have signed their FY93/FY94 HOME agreements, rather than waiting until they begin drawing down their FY93/FY94 funds.

17. **C/MI System For Tenant Assistance:** Eliminate the requirement that specific information (social security number, amount of tenant contribution, amount of subsidy) be provided up front on each tenant to be assisted with HOME funds, requiring instead that such information be contained in the completion report. PJs should be required to indicate up front the number of tenants expected to be assisted and the total amount of subsidy expected to be provided.

18. **C/MI System and CHDOs:** Allow CHDO projects to be set-up in the C/MIS (therefore show them as a commitment) prior to complete CHDO identification of all financial sources and/or completion of approval/filing as a CHDO. This would enable PJs to commit their CHDO monies faster rather than waiting for the lengthy CHDO approval process.

19. **Limitation on Use of HOME With FHA Mortgage Insurance:** Remove the requirement that the HOME affordability period corresponds to the term of an FHA insured mortgage when HOME funds are used in connection with housing financed with a mortgage insured by HUD. HOME affordability requirements should prevail.

20. **Property Value Limits:** Allow local jurisdictions to base property value limits on the area median income as provided in the statute.

\* 21. **Definition of Affordable for Subsequent Low-Income Borrower:** Eliminate the regulatory requirement that first-time homeownership units be made affordable to the subsequent low-income buyer at a price that is 30% of 75% of median income. The statute requires that the unit be affordable but does not specify the actual amount. PJs should be given the option to define what is affordable to another low-income purchaser.

\* 22. **Definition of SRO under HOME:** Conform HOME's definition of Single Room Occupancy (SRO) projects to that used in other federal programs such as the McKinney Homeless and Shelter Plus Care programs, thus allowing HOME to be used in combination with these programs.

23. **Flexibility with Davis-Bacon:** Eliminate Davis-Bacon requirements for HOME projects of 12 units or more, but scheduled to be sold to individuals as separate units.



# Coalition

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*for Low-Income Community Development*

Testimony of the  
COALITION FOR LOW-INCOME COMMUNITY DEVELOPMENT

Reauthorization Hearing for Community Development Block Grant (CDBG)

U.S. House of Representatives

Subcommittee on Housing and Community Development of the

Committee on Banking, Finance and Urban Affairs

H.R. 3838

Wednesday, March 16, 1994

Testimony presented by

Ruth Crystal

Board Member, Coalition for Low Income Community Development (CL-ICD)  
Executive Director, Maryland Low Income Housing Coalition

**Testimony of the  
COALITION FOR LOW-INCOME COMMUNITY DEVELOPMENT**

**Reauthorization Hearing for Community Development Block Grant Program  
House Subcommittee on Housing and Community Development**

**H.R. 3838**

**Wednesday March 16, 1992**

Mr. Chairman and Members of the Subcommittee, I greatly appreciate the opportunity to share with you the views of the Coalition for Low-Income Community Development (CL-ICD) as you begin the process to reauthorize the Community Development Block Grant Program (CDBG).

CL-ICD is an active coalition of 1,400 grassroots and national organizations interested in the federally funded CDBG program and economic development issues. The Coalition was organized to preserve CDBG funding and initiate and promote legislative and regulatory changes to ensure that low-income people benefit from the CDBG program. The Coalition provides local communities with information about the CDBG program and technical assistance on how non-profits can apply for funding or monitor how the funds are spent in their neighborhoods.

Community development corporations seeking financing for low-income projects, community-based service providers and neighborhood groups advocating for improved housing, economic development, and better services, all find the CDBG program central to their needs. The reasons for this are simple: other programs supporting low-income housing and economic development have been eliminated or cut heavily, and CDBG is a \$4.4 billion dollar federal resource, controlled at the local level, flexible, yet targeted to benefit lower-income people. The CDBG program remains a critical source of funds for housing rehabilitation and preservation, job creation and training, commercial and industrial development, and neighborhood revitalization.

In recent years, as localities have experienced a reduced tax base and an increase in severe housing, economic, and social problems, the struggle over how CDBG money is spent has intensified. Local and state governments have been tempted to divert CDBG funds away from low-income neighborhoods to cover general government functions historically supported with local revenues and General Revenue Sharing.

Since CDBG is administered as a block grant program, there are tremendous differences from state to state, county to county, and city to city, in how effectively the program is administered. Because of this diversity, the CDBG program is perceived quite differently from community to community. It is this very diversity which encouraged the establishment of this national coalition to share information between localities and act as a oversight body reviewing whether low-income communities truly benefited from the CDBG program.

## **Recommendations for Changes to the CDBG Program**

Our testimony today will first address the CDBG issues discussed in H.R. 3838. We will then discuss our reactions to the legislative ideas outlined in the Department of Housing and Urban Development's (HUD) 1995 budget proposal. We will offer some additional ideas, concerns, and recommendations of our own concerning the CDBG program. And finally, we will discuss some of the ideas we have heard being proposed by the various government-interest groups.

### **H.R. 3838**

#### **Sec. 601 (a) Authorization of Appropriations**

CL-ICD is pleased to see that H.R. 3838 proposes to reauthorize the CDBG program at \$4,532,000,000 for FY 1995 and \$4,667,960,000 for FY 1996. Although this amount is slightly more than the Administration is currently recommending, it is the bare minimum needed to assist state and local communities facing severe housing, economic, and social problems.

According to the National Low Income Housing Information Service, the 1994 appropriation of \$4.4 billion was only 68% of the 1980 level after adjusting for inflation. In addition, the number of communities eligible to receive CDBG has grown dramatically over time. In the Entitlement Program, 594 communities were eligible to receive CDBG funds in 1975 when the program began, and in 1992 889 communities were eligible. We recommend strongly that the House Subcommittee authorize at least \$4.5 billion dollars for the CDBG program.

#### **Sect. 601 (b) Limitation on Loan Guarantees**

The 1990 Cranston-Gonzalez National Affordable Housing Act authorized the expansion of the limitation of Section 108 loan guarantee authority in FY '91 and FY '92 to \$300 million. The FY '90 limit was \$140 million. In addition, the loan repayment period was extended from six to twenty years and communities may now borrow up to five times their CDBG allocation. The previous borrowing level was three times the CDBG allocation.

In 1992, Congress dramatically raised Section 108 authority from \$300 million to \$2 billion. H.R. 3838 would authorize Section 108 loan guarantee authority to \$2,115,620,000 for FY '95 and \$2,179,088,600 for FY '96. These changes to the CDBG program are potentially significant and their effect should be analyzed by Congress. In addition, H.R. 3838 and HUD are now proposing to add UDAG recaptures to this program (discussed in detail below).

CL-ICD is concerned about whether local communities are mortgaging their future CDBG funds on questionable projects. In the past we have recommended greater Congressional oversight and evaluation on how well the Section 108 program is actually working. Once again, we recommend the GAO conduct an in-depth review on how many communities have had trouble repaying these loans and any other difficulties there may be in using CDBG funds in this way.

### **Sec. 602 Economic Development Grants**

H.R. 3838 calls this Economic Development Grants, HUD calls the program Economic Revitalization Grants. In both cases, the program will provide grants to assist the financing of economic development projects in conjunction with loans under the section 108 Loan Guarantee program. To qualify, projects must be eligible under the CDBG program. The HUD Budget assumes that \$100 million of the funding for these grants will come from the transfer of unobligated balances from the UDAG program.

In reviewing the language offered in Sec. 602 of H.R. 3838, we are pleased to see that the House Subcommittee has maintained the requirement that projects funded using any recaptured UDAG money - which will now be considered the Section 108 (q) program - must be eligible under the CDBG program. Specifically, the 70% targeting requirement for low - and moderate-income people must be used. We strongly recommend that any changes to the Section 108 program must maintain strong targeting requirements to lower-income communities.

H.R. 3838 limits the use of Section 108 (q) only to economic development eligible activities. We believe Congress should emphasize the need for local governments to seriously look at using Section 108 and Section 108 (q) for neighborhood development rather than downtown development projects.

We are not entirely convinced, however, that this is the very best use of the UDAG recaptures. Increasingly we hear talk about the need for the CDBG program to be used in the Administration's welfare reform efforts. We wonder if using the proposed \$100 million UDAG recaptures might not be better used for additional job creation or training programs in this area of welfare reform.

### **Sec. 604. Sect. 108 Loan Guarantees for Colonias**

Currently, Section 108 can be used for four types of activities: 1) acquisition or the rehabilitation of real property by an eligible public entity, 2) housing rehabilitation, 3) economic development activities, 4) construction of housing by nonprofits. This bill proposes to add activities in the colonias as a new eligible activity. CL-ICD agrees that this is an appropriate expansion of the use of Section 108 authority.

An additional recommendation from CL-ICD. CL-ICD also recommends that the Subcommittee consider another eligible activity, however. We believe that the CDBG Section 108 tool should be available for financing community facilities (e.g., day care, Head Start, job training, primary health care). Such facilities can be financed with regular CDBG funds, but not Section 108. We would like to see Section 108 brought more in line with the basic CDBG program.

Communities are facing expanding unmet needs with very limited resources. A recurring frustration is the lack of adequate facilities in low-income areas where services can be delivered to make people and communities self-sufficient - such as child care, Head Start, job training, primary health care, youth and elder services, and welfare-to-work programs. These services are truly investments because they decrease the financial demands on government over the long run, but many low-income



neighborhoods have no place to operate them.

Currently Section 108 is limited to economic development and housing rehabilitation, even though the basic CDBG program can be used to finance a much broader range of activities. The narrower scope of Section 108 activities is unnecessary, confusing, and inconsistent with the broader CDBG program of which it is a part. Service programs can often be structured to generate sufficient income to carry at least some debt financing on a facility.

Expanding the eligible activities under Section 108 would open a major new source of financing for community facilities, help HUD fulfill its newly articulated commitment to strengthening community and families, and would not require changes in the basic CDBG program or additional federal appropriations. We urge the Subcommittee to consider adding this eligible activity as well as the one for the colonias.

### **Section 605 Assistance to Colonias**

H.R. 3838 continues to authorize, through 1996, the Secretary of HUD to set aside up to ten percent of the States and Small Cities funds of Texas, New Mexico, Arizona, and California for special assistance to the colonias. CL-ICD believes that this is an important program, especially for the severely distressed colonias communities of Texas. Over the past few years, much debate as centered around the severity of the colonias problem in New Mexico and Arizona, and especially in California.

CL-ICD recommends that HUD continue to work closely with the non-profit, low-income advocates in all of these states to determine what the appropriate level of the colonias set-aside should be, based on the severity of the problem in each state.

### **HUD's Legislative Proposals as Outlined in their 1995 Budget**

HUD has outlined a number of legislative initiatives as part of their 1995 Budget. Unfortunately, no detailed legislative language is yet available for our review. Our discussion below, is based merely on the minimal information we have about their proposals. We will provide additional comments to the Subcommittee once HUD releases their legislative package in April.

#### **LIFT Program: HUD's CDBG Economic Development Initiative**

HUD will be proposing legislative language to authorize its new initiative, the Neighborhood "Leveraged Investments for Tomorrow" (LIFT) Program. An appropriation of \$200 million will be requested for 1995 from the CDBG account. In its budget report HUD states that "this project-based neighborhood economic development program will stimulate investment in economic and physical revitalization projects to improve the quality of life in development projects that further the comprehensive revitalization of distressed urban neighborhoods."

Eligible applicants will be units of local government, with funds to be awarded through a national competition based on selection criteria in the

statute, along with other factors to be published by HUD in program regulations and the Notice of Funding Availability (NOFA). Eligible activities will include specific industrial, commercial, or mixed-used real estate projects. Only entitlement communities appear to be eligible for LIFT grants.

#### **CL-ICD's concerns and recommendations.**

**1. Funding.** As it is currently proposed, it appears that the \$200 million funding for this program will come "off the top" of the CDBG appropriation. We hope that if this \$200 million program is authorized, Congress would authorize at least \$4.6 billion for the overall CDBG program. This would allow CDBG to not experience an overall budget reduction from FY 1995.

**2. Protection of funding for States & Small Cities Program.** It appears at this time that only entitlement communities are eligible for this competitive program. If that is the case, CL-ICD strongly urges that funds used for the program are taken directly from entitlement communities. The small towns and rural areas that are part of the States and Small Cities program should not receive a cut in their funding level because of a competitive, urban set-aside program.

**3. Different tiers for competition.** Most competitive programs favor the larger entitlement communities. There has been some concern raised by smaller entitlement communities that only the very major, urban areas, would likely receive LIFT funds. We recommend that HUD incorporate different tiers, based on population size, as part of its competitive application process.

**4. Need for neighborhood economic development versus downtown development.** Our interest in the program is centered on it being a neighborhood-oriented economic development program. We will support LIFT if it is clear that the goals of the projects funded are based on increasing the neighborhood's economic base, and that residents of the community as well as neighborhood non-profit organizations are directly involved in the planning. Neighborhood residents should benefit directly from the projects funded through jobs and the receipt of credit for residential business ventures.

**5. Involvement of CDCs and community-based non-profits.** We recommend that capitalization funds and investment opportunities for the neighborhood be administered through joint ventures with CDCs and community-based non-profits.

#### **Community Viability Fund**

This is a new initiative of HUD's which the budget plan describes as a "program that would provide funding aimed at improving urban design, and in support of comprehensive neighborhood, city-wide and regional planning (including planning for strategic economic development and deconcentration of the poor and minorities)." The Fund would support a recognition awards program to focus national attention on efforts to find solutions to housing and community development issues.

Funding would also be available to build the capacity of community-

based development corporations (CDCs) and housing development organizations, and to assist such entities to carry out community development and affordable housing activities (including the demonstration specified under Section 4 of the HUD Demonstration Act of 1993).

HUD also states that "the fund will strengthen the civic culture, fund the design/development of public amenities, support strategic planning that is essential to neighborhood revitalization, and support community organizing activities. This proposal represents a means of leveraging other public and private resources, thus multiplying the effect of the Federal effort."

#### **CL-ICD's concerns and recommendations.**

**1. Strategic Planning and Urban Design.** CL-ICD believes that funds to help communities develop and implement comprehensive approaches to solve economic, housing, and social problems are critical. HUD's Office of Community Planning and Development has spent months working on developing a comprehensive planning approach to replace the current planning requirements for most of its programs. Throughout their process, we have recommended the absolute need for involving citizens and low-income communities in a meaningful way in the planning process. We discuss later in our testimony some additional ideas we have concerning a citizen monitoring project. We believe that both HUD and this Subcommittee should seriously consider ways to ensure that residents of the community are actively involved in planning and setting their own economic development and housing priorities.

**2. Capacity Building.** We are pleased to see the emphasis HUD has placed on the important role that community-based non-profits and CDCs have played in the revitalization of our nation's most distressed communities. We believe that funds for increasing the capacity of neighborhood organizations and institutions, training in financial management and other technical skills, as well as support for community organizing in unorganized neighborhoods, is critically needed. We look forward to reviewing HUD's exact language for this proposal and support the concept in general. We hope the Subcommittee seriously considers the value this component of community development plays in revitalizing poor communities.

**3. Incentive grants and awards.** In general we support funding incentive grants to help fund innovative programs and projects, and an awards programs that recognizes excellence and innovation in community development programs. It would be helpful to have some funds available to replicate innovative programs being developed by grassroots and community-based programs. We recommend that non-profits be eligible to participate in such a program directly, not just government entities.

#### **Colonias Assistance Program**

HUD has included a \$100 million Colonias Assistance Program initiative in its 1995 budget. The colonias are the severely distressed rural unincorporated areas located along the United States-Mexico border that are characterized by substandard housing, inadequate roads and drainage,

and substandard, or non-existent, water and sewer facilities.

This program would assist state and local efforts to address the severe housing and infrastructure needs of the colonias. The \$100 million would be used to match funds provided by the states of Texas, New Mexico, California, and Arizona and local governments and non-government organizations in those states. Federal assistance will be used to enhance and supplement state and local efforts conducted as part of a comprehensive strategy to mitigate public health risks and create safe, affordable, and decent housing in the border region.

**CL-ICD's recommendation.** We support providing additional funds to assist this very distressed area of our nation. We recommend that HUD work closely with the non-profit, low-income advocates in all of these states to determine the next best steps that should be taken to really assist the residents in these areas. We caution HUD to not work just with state and local governments or even designated for-profit consulting groups. The needs of the actual residents must be incorporated into the development of infrastructure and housing for these areas. We recommend the House authorize this program.

### CL-ICD Recommendations

#### **The need for a Citizen Monitoring Project**

**HUD's Monitoring Abilities.** Two years ago, the Housing and Employment Subcommittee of the Government Operations Committee of the House of Representatives, held hearings on the CDBG program. These hearings focused on abuses in the program and looked at how well HUD was able to monitor the CDBG program. In her testimony to that Subcommittee on March 18, 1992, HUD Assistant Secretary Anna Kondratas, stated: "I cannot over-emphasize the simple fact that eliminating front-end reviews by HUD of specific activities, deleting detailed grantee application requirements and instituting reliance on monitoring grantees' activities after grant awards, exposes the CDBG program to a host of potential abuses."

Likewise, Chris Greer, Assistant Inspector General for Audit at HUD said in his testimony before the Government Operations Subcommittee, "HUD's inadequate oversight of grantee performance has been the subject of numerous Office of Inspector General and General Accounting Office audits over the years."

HUD would like to ferret out abuses of the CDBG program, but will never have the staff to ensure participation that is needed, particularly in this time of cuts, downsizing the Department, and eliminating regional offices.

**Scrutiny of the CDBG Program.** Both the strength and weakness of the CDBG program lie in its flexibility. Flexibility allows local units of government to implement solutions that directly attack local problems. But flexibility also permits abuses and politically popular choices that are not helpful to the program's intended beneficiaries, low- and moderate-income persons. The failure of the economic stimulus bill in early 1993 brought



light to the political vulnerability of CDBG. Ample evidence demonstrated the questionable uses or unspent funds for overdue projects. Unfortunately, the evidence was used to defeat the stimulus package.

CL-ICD believes that greater involvement by citizens (especially lower-income people) in scrutinizing what the CDBG program funds, is the very best assurance that only appropriate programs are indeed funded. There is nothing illegal or inappropriate about funding recreational projects like parks and swimming pools. The question is: Is this what the local citizens want and consider the highest priority for their community? If it is, then the project should be funded if it is a CDBG eligible activity.

#### **Citizen Participation Monitoring Project**

CL-ICD strongly advocates the implementation of a CDBG Citizen Participation Project to strengthen the effectiveness of CDBG funded activities and to ensure meaningful participation of low - and moderate-income persons, with funding expenditures ultimately benefiting low-income populations. Although we have 20 years of experience with the CDBG program, it is still difficult to point out how funds have benefited low-income persons. It is important to obtain the information needed to analyze the most effective uses and case studies of CDBG funds.

To improve the program, low-income persons must understand the program, have a meaningful role in planning, be involved in citizen participation processes that are open, broad-based, reflect diverse needs, and propose solutions that address root causes of community problems and emphasize common values. Only with the strengthening of meaningful participation will low-income persons be assured benefits from CDBG.

#### **Other Citizen Participation Requirements**

In 1986, through the work of CL-ICD, Congress strengthened citizen participation standards for the CDBG program. This was a breakthrough for citizens where previously access to information and opportunities to participate in decision-making had been lacking. CL-ICD continues its work to ensure that citizens, especially low-income people, have an opportunity to let their local government know about the needs of their community and their recommendations for the kinds of programs to address those needs.

**CL-ICD's recommendation.** It has recently come to our attention that local organizations seeking specific information about their community's CDBG program are often required to file Freedom of Information Requests for basic documents like the Final Statement and Grantee Performance Report (GPR). In addition, local governments are charging these organizations varying prices (.05 to .25) to xerox one page. In the cases that have been brought to our attention, grassroots organizations have been asked to pay between \$50 and \$150 dollars for these basic documents. We strongly urge the Congress to require local and state governments to provide these CDBG documents for free to any organization requesting them. Adequate CDBG administrative funds are available to cover such costs. Requirements to pay for this material is simply a way that local governments discourage citizens and low-income community-based groups to monitor the program.

## Economic Development and CDBG

**Job Creation and Retention.** For an activity that creates jobs, the recipient must document that at least 51% of the jobs will be held by, or will be made available to, low - and moderate-income persons. For an activity that retains jobs, the recipient must document that the jobs would actually be lost without the CDBG assistance. CL-ICD asks the Subcommittee to consider dropping the "made available to" as an option for showing that the low/mod benefit test was met. In addition, at least 51% of the jobs created or retained should go to low-income people. Given the high numbers of unemployed and underemployed, it seems only reasonable that a federal subsidy to a for-profit entity should require that jobs are actually created for or retained by low - and moderate-income people.

**Job Training and the Role of Non-profits.** The regulations state that "jobs will be considered to be available to low and moderate income persons only if special skills that can only be acquired with training or work beyond high school is not required, and the recipient and the assisted business take actions to ensure that low and moderate income persons receive first consideration for filling such jobs."

To date, there has been very little coordination between local government recipients, assisted businesses, and non-profit organizations, to ensure that outreach for job placement is clearly made to lower-income people. Too often, an assisted business will simply say, "there are no lower-income people available to fill this job." CL-ICD believes that non-profit, community-based organizations can play a crucial role in identifying low-income people for job placements. We encourage this Subcommittee to explore ways to utilize the expertise of non-profit, community-based organizations in linking lower-income people to job opportunities.

**Documenting Low-Mod Benefit in Economic Development Projects.** The Subcommittee and HUD often hear that it is too difficult to actually document that low and moderate-income people have been placed in a particular job. The concern is usually that the for-profit entity cannot get people to disclose their income, or that it is just too much of a paperwork burden to track exactly who is getting these jobs. CL-ICD's understanding of the documentation issue is quite different. Since these are scarce federal dollars being used to subsidize a for-profit entity, CL-ICD encourages Congress to ensure that 1) the jobs are actually created or retained, and 2) that they are held by low or moderate-income people.

**Incentives for Meeting Job Creation/Retention Goals.** The experience of HUD and local government in trying to sanction for-profit entities who do not meet their stated job creation/retention goals has been extremely poor. Instead of looking at a sanction approach, perhaps we should consider some kind of a reward to businesses who meet their job creation goals. One possibility might be to decrease the interest rate being charged for the loan based on job creation/retention performance. An example might be: a company received a loan at 7% interest and promised

to create 100 jobs in three years. If the company actually created the full number of jobs, they could either receive a cut in their rate to 6.5% or a lump sum equal to the reduced rate at the end of the contract year. If the company created the 100 jobs in two years, they could receive an even larger interest rate break.

#### **Technical Assistance Funds**

HUD's Community Planning and Development (CPD) office has been distributing approximately \$22.5 million in technical assistance grants over the past few years. All grants were distributed on a competitive "Request For Proposal- RFP" basis. Fourteen million dollars were earmarked for economic development technical assistance and \$8.5 million for other types of assistance.

HUD should be required to provide annual updates to Congress and the public on how these funds were distributed. To date, there has been no easy way to monitor when the NOFAs were expected to be published, how much of the money has been awarded, or the effectiveness of the projects funded.

#### **Proposals Being Initiated by Government-Interest Groups**

We understand that the following ideas are being proposed by various government-interest groups. We want to provide the Subcommittee our initial reaction to these proposals.

#### **Increasing the Public Services Cap**

Currently, public services under CDBG are limited to 15% of a community's annual grant plus program income. Public services include, but are not limited to: public safety programs, child care, job training, services for the elderly and handicapped, crime prevention, and recreational services. Recently there has been some discussion by various government-interest groups to increase the CDBG public services cap from the current 15% to 20%.

**CL-ICD's comments.** CL-ICD is not able to support an increase in the public services cap at this time for a number of reasons.

1) We are concerned that some communities might supplement their current level of police and fire operations with CDBG funds.

2) We are not convinced that there is a need for the cap to be raised. The most recent HUD Annual Report to Congress reports that nationally, 9% of the expenditures in 1990 went to public services (\$234 million in FY 1990, up slightly from the \$226 million spent in FY 1988) in the Entitlement Program. Very little of the States and Small Cities funding goes towards public services expenditures - only 1% in FY 1991 (approximately \$8.2 million dollars).

3) The above percentages, 9% for the Entitlement Program and 1% for the States and Small Cities Program are, of course, national averages. If a particular community is facing a severe hardship and needs to increase the amount of CDBG funds for public services, then HUD should be able to grant a waiver to them.

4) Overall CL-ICD is in favor of local governments using more of their funds for public services projects. Many of the programs non-profit, community-based organizations are trying to fund, and low-income communities want, fall under public services eligible activities. We encourage local governments to increase their CDBG funding in this area. However, there seems to be significant room for governments to increase spending in this area, without increasing the public services cap.

#### **Increasing threshold for triggering Davis-Bacon**

The Davis-Bacon Act is a law that determines wage rates for federally-assisted construction projects. In an effort to help decrease the cost of many smaller construction and rehabilitation projects in communities across the nation, some government-interest groups are recommending that Congress approve the provision contained in the "Davis-Bacon Act," (H.R. 1231) pending in the House. H.R. 1231 is designed to increase the dollar threshold for triggering the Davis-Bacon Act from \$2,500 to \$100,000.

**CL-ICD's comments.** We are not at this time prepared to say what the correct triggering level ought to be. It is clear, however, that the current standard of \$2,500 is completely outdated given current construction costs. We recommend the Subcommittee evaluate what an appropriate level might be.

#### **Make CDBG & HOME compatible by activating Davis-Bacon for 12 units**

**CL-ICD's Comments.** We support conforming the CDBG and HOME program requirements regarding the number of housing units necessary to activate Davis-Bacon, from eight units for CDBG to 12 units for HOME.

#### **Conclusion**

The Community Development Block Grant is one of the most important sources of federal funds for low-income communities. CDBG funding is a major resource for housing renovation, economic development projects, and neighborhood revitalization programs. CL-ICD is interested in working closely with this Subcommittee to ensure that the "flexibility needs" of the program are evenly measured against the "need for accountability" within the program. We are concerned that the needs of low-income people and communities are considered a priority by state and local government, as well as by Congress and HUD.

Thank you for giving citizens, non-profits, and lower-income people an opportunity to comment on this critically important federal program.



March 16, 1994, hearing held by the  
Subcommittee on Housing and Community Development,  
entitled "H.R. 3838, Housing and Community  
Development Act of 1994"

QUESTIONS FROM CHAIRMAN HENRY B. GONZALEZ TO  
MS. RUTH CRYSTAL

1. What are your suggestions as how to promote the amount of economic development activities conducted by CDBG recipients. Will the UDAG recaptures, which may provide the Department with only \$100 million in extra funding, used in conjunction with the section 108 loan guarantees reduce communities' reluctance to engage in economic development activities with section 108 loan guarantees.

Are local community development agencies aware of the section 108 program and its requirements? Do they have the capacity to create viable loans arrangements with other organizations or is greater technical assistance needed to assist them? Do you feel as if HUD has the capacity to review these loan applications and make a informed judgement as to whether they are worth the risk?

2. In your estimation, what hinders communities from conducting economic development activities? Is legislative or regulatory change necessary to increase communities' participation in economic development activities?

3. How do you feel about increasing the public services cap in the CDBG program?

4. How do you feel about expanding the eligible activities for Section 108 loan guarantees for the purpose of financing non-housing, community facilities?

# Coalition

## *for Low-Income Community Development*

### **Answers to Questions Posed by Chairman Henry B. Gonzalez to the Coalition for Low-Income Community Development on March 16, 1994 hearing on H.R. 3838**

1. We do not believe that using UDAG recaptures in conjunction with the Section 108 program will significantly decrease a jurisdiction's reluctance to engage in economic activities with 108 loan guarantee money. We believe the reasons jurisdictions do not utilize the program is that the kind of "big" development projects traditionally done with Section 108 type money are simply not being done at this point in time in cities. "Downtown" development projects, so popular in the early eighties are not viable for many jurisdictions given the surplus of commercial properties that are typically available in these jurisdictions now.

Instead of using Section 108 money for "downtown" projects like hotels, convention centers, and stadiums etc., we believe the funds should be directed more towards large scale neighborhood revitalization efforts in low-income communities. We are cautious in our recommendation of this because we would not want to see displacement of the very people that this type of development should benefit, however.

We believe that the best way of promoting economic development projects with CDBG funds is for increased training on the part of HUD to the local jurisdictions to guide them in making good, appropriate funding decisions. Economic development activities are always more riskier and difficult to accomplish than using the CDBG funds for infrastructure and housing. However, jobs and business opportunities are really what local low-income people want. Although it is more difficult to develop good models of economic development, this is where we do need to put our creative energies.

It might be helpful if HUD could provide models of good economic development projects for states and entitlement communities to see. We think it is important for HUD to select the model activities since they will chose those that really work within HUD's guidelines. We also believe these models must be successful in developing decent, good jobs for low-income people and that there was real community participation in the development of the economic development project.

2. We believe the greatest hindrance in doing economic development with CDBG dollars really simply reflects the inherent difficulty in developing good economic development projects. Supporting economic development is just much harder to do than build affordable housing.

In addition, the way CDBG funds are more often used - housing and infrastructure- are urgent problems for most cities and states. It is not as

though CDBG money is not being used well simply because more of it is not going towards the economic development problems of local jurisdictions.

We believe it is too simplistic to accept the argument that more economic development activity would be engaged in if there were simply less regulations. That was the rallying call of the eighties - "just give us deregulation and we will perform!" We disagree heartily with this approach. There must be accountability of how localities use scarce federal dollars. And more importantly, we must have documentation about the local projects in order to evaluate how successful they were. The purpose of the documentation is to evaluate and really learn what works - not just for some arbitrary "governmental purpose of forcing more paperwork."

We believe that regulations and legislation should not require less review of the programs. We agree that streamlining requirements would be good, but accountability on whether jobs were actually created and created for low-income people must remain the basic core of the regulations. Unfortunately, this will inevitably require documenting who was hired. We expect some documentation whenever any citizen or group receives a federal government benefit. This is appropriate and should not be construed as overly burdensome given the benefit the recipient is getting from the government.

Our original testimony outlines a number of other ways that we recommend improving economic development in the CDBG program (we have a section devoted just to this). We discuss job creation and retention, job training and the role of non-profits, documenting low-mod benefit in economic development projects, and incentives for meeting job creation/retention goals.

3. Currently, public services under CDBG are limited to 15% of a community's annual grant plus program income. Public services include, but are not limited to: public safety programs, child care, job training, services for the elderly and handicapped, crime prevention, and recreational services. CL-ICD is not able to support an increase in the public services cap at this time for a number of reasons.

1) We are concerned that some communities might supplement their current level of police and fire operations with CDBG funds.

2) We are not convinced that there is a need for the cap to be raised. The most recent HUD Annual Report to Congress reports that nationally, 9% of the expenditures in 1990 went to public services (\$234 million in FY 1990, up slightly from the \$226 million spent in FY 1988) in the Entitlement Program. Very little of the States and Small Cities funding goes towards public services expenditures - only 1% in FY 1991 (approximately \$8.2 million dollars).

3) The above percentages, 9% for the Entitlement Program and 1% for the States and Small Cities Program are, of course, national averages. If a particular community is facing a severe hardship and needs to increase the amount of CDBG funds for public services, then HUD should be able to grant a waiver to them.

4) Overall CL-ICD is in favor of local governments using more of their funds for public services projects. Many of the programs non-profit,

community-based organizations are trying to fund, and low-income communities want, fall under public services eligible activities. We encourage local governments to increase their CDBG funding in this area. However, there seems to be significant room for governments to increase spending in this area, without increasing the public services cap.

4. We believe that the CDBG Section 108 tool should be available for financing community facilities (e.g., day care, Head Start, job training, primary health care). Such facilities can be financed with regular CDBG funds, but not Section 108.

Communities are facing expanding unmet needs with very limited resources. A recurring frustration is the lack of adequate facilities in low-income areas where services can be delivered to make people and communities self-sufficient - such as child care, Head Start, job training, primary health care, youth and elder services, and welfare-to-work programs. These services are truly investments because they decrease the financial demands on government over the long run, but many low-income neighborhoods have no place to operate them.

Currently Section 108 is limited to economic development and housing rehabilitation, even though the basic CDBG program can be used to finance a much broader range of activities. The narrower scope of Section 108 activities is unnecessary, confusing, and inconsistent with the broader CDBG program of which it is a part. Service programs can often be structured to generate sufficient income to carry at least some debt financing on a facility.

Expanding the eligible activities under Section 108 would open a major new source of financing for community facilities, help HUD fulfill its newly articulated commitment to strengthening community and families, and would not require changes in the basic CDBG program or additional federal appropriations. This, of course, has already been accomplished with the passage of S. 1299 by the Congress earlier this month.



Statement of Kenneth E. Dobson  
Vice President  
Commercial Development Division  
Detroit Economic Growth Corporation  
City of Detroit, Michigan

on behalf of

THE NATIONAL COUNCIL FOR URBAN ECONOMIC DEVELOPMENT

before the

U.S. House of Representatives  
Subcommittee on Housing and Community Development  
of the Committee on Banking, Finance and Urban Affairs

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March 16, 1994

My name is Kenneth Dobson. I am Vice President for the Commercial Development Division of the Detroit Economic Growth Corporation in Detroit, Michigan. The DEGC is a 16-year-old non-profit public/private development facilitator organization. It focuses specifically on jobs-producing business and economic development projects in targeted development areas throughout the City of Detroit. These project activities include industrial development, downtown commercial development and neighborhood economic development. We take great pride in the progress that we have made against extremely difficult obstacles, in our neighborhood economic development initiatives.

Thank you for the opportunity to testify this morning regarding the role of economic development and the use of Community Development Block Grant funds. Because CDBG is the primary Federal program used by cities and urban areas for community development, the role of economic development and job creation for residents of these low- and moderate-income neighborhoods deserves special attention.

I am testifying this morning on behalf of The National Council for Urban Economic Development, known as CUED. CUED is a nonprofit membership organization representing over 1,200 economic development professionals from cities of all sizes, metropolitan areas and regions. The members of this organization are the public and private sector practitioners who are working to build local economies through the tools used to create, attract and retain jobs. CUED's membership includes nearly one-third of the

CDBG grantees and more than 900 CDBG subgrantees. I am a longstanding member of the organization and currently serve on its Board of Directors.

CUED has worked closely with HUD and the Community Development Block Grant program throughout our 26-year history. CUED has been working with the U.S. Department of Housing and Urban Development (HUD) and economic development practitioners for the past five years to make changes in the CDBG program that would ease the increasing regulatory burdens on grantees and subgrantees. It is important to acknowledge HUD's progress on this issue of late. CUED has been greatly impressed by the efforts made by Assistant Secretary Andrew Cuomo to generate input from CDBG grantees and subrecipients as the agency refines its policies in this area. Just last week, Deputy Assistant Secretary Mark Gordon invited CUED to participate along with other public interest groups and local representatives in an intra-agency discussion aimed at reforming CDBG to make it more useful for job creation activities. We fully support these efforts to make improvements in CDBG, particularly since policy makers are actively soliciting input from stakeholders in the program.

I would like to focus your attention on three neighborhood economic development initiatives in Detroit that were only made possible through the creative use of Community Development Block Grant funds. These projects include the construction of the 72,000 square-foot community-owned Virginia Park Shopping Center, which was constructed in 1980 on the site of the 1967 civil disturbance in Detroit and used \$1,000,000 in CDBG funds and another \$2.3 million of other public and private funds. The shopping center has since facilitated the construction of a large multi-purpose community center adjacent to it and several hundred units of housing around it. The neighborhood has been completely rebuilt into an affordable, modern community, which consists of a mixture of housing types and benefits from solid community-based leadership and management.

The second development project is the renovation and rehabilitation of Detroit's oldest traditional neighborhood business districts. This district is historically known as the Avenue of Fashion (Livernois and Seven Mile Road), an area that experienced serious physical decline, business exodus and high unemployment. It is surrounded by a very stable turn-of-the-century housing stock situated in several geographically connected and inter-connected neighborhoods. The business center now has new brick facades on its small businesses, which blend in with the brickwork on a large supermarket that was constructed as a part of the renovation program. Also, previous back-door freight entrances to these small businesses were converted into attractive primary entrances from the main parking lot and supermarket traffic. A significant amount of small business recruitment, attraction, management, and technical and financial assistance also went into the development of this project.

The third initiative was the establishment of a Neighborhood Commercial Area Stabilization Revolving Loan fund (CAS Loan Fund), which served two primary purposes. It leveraged the involvement and participation of Detroit banking institutions as a result of

its 60/40 companion loan participation framework in such a manner as to increase capital availability to small businesses in many depressed or development areas of the City. While each of these neighborhood business and economic development initiatives have served their initial purposes, we continue to modify, improve and expand on these concepts as essential community development tools and techniques both within the areas from which they originated as well as in other neighborhood development areas of the City.

Economic development is an integral part of comprehensive community development. Community development is about more than building houses and repairing sidewalks. Not only do people live in neighborhoods, but they also work, shop, eat and recreate there as well. If our urban neighborhoods are to thrive, residents of those neighborhoods must have the opportunity to do all of these things. That was the original intent of the CDBG program. Most cities find that while CDBG is a successful program in general, the requirements surrounding economic development are too intricate and cumbersome for it to take place with widespread success.

As well-illustrated in a February 1994 General Accounting Office (GAO) report to Congress entitled "Community Development: Block Grant Economic Development Activities Reflect Local Priorities," the use of CDBG by grantees varies widely. In 1990, \$290 million of the \$4 billion budget allocation was used for economic development. However, seven grantees comprised 25 percent of that total allocated to economic development. Just two percent of all grantees accounted for 45 percent of the CDBG funds allocated to economic development. Likewise, a recent survey of CUED members found that some used a large portion of their grant for economic development while most used none at all. For instance, Portland, Oregon, uses 25 percent of its CDBG allocation toward economic development, and Omaha, Nebraska uses 15 percent. Meanwhile, Petersburg, Virginia does not undertake any economic development activities with CDBG money. More typical examples are Cook County, Illinois, which used approximately five percent of its CDBG allocation for economic development, and Philadelphia, Pennsylvania, which uses six percent.

The GAO report stated that CDBG entitlement communities used about 11 percent of their CDBG allocations toward economic development in 1990. The study also confirmed that entitlement communities' economic development expenditures have been declining recently. Nationally, Grantee Performance Reports show that economic development expenditures dropped from 13 percent to eight percent from 1987 to 1992.

### Activities

Many cities use their economic development funds from CDBG to finance facade improvement programs, loans to small businesses, and technical assistance to small neighborhood businesses. One area in which grantees are becoming more aggressive is in helping low- and moderate-income persons to find employment in CDBG-assisted activities. For instance, Portland, Oregon, created a JobNet program to do just that. It does so by



networking the State's employment service, community colleges, private industry councils, and other community-based organizations that recruit and screen individuals for jobs. Since its inception in 1989, Portland's JobNet has assisted the placing of 1,850 people in jobs throughout the region. Over 80 percent of these people were low or moderate income.

Cook County, Illinois capitalizes a revolving loan fund with some of its CDBG allocation. One of its greatest success stories involves giving an expansion loan to a specialty paper manufacturing company. The county also helped in the acquisition of a nearby building and adding infrastructure to connect the two buildings. Not only has the business expanded again, but it more than met the 51 percent low-mod job quota. Cook County also recently gave a loan for the expansion of a steel company, which was being courted by other states as well as other counties within Illinois. The loan allowed the company to remain in Cook County, which will keep receiving \$35,000-\$40,000 of property taxes each year. In addition, the firm is adding ten more employees. This is the type of work that cities informally call "business retention," but is not defined as such by HUD. Note that Cook County focused more on the company's expansion plans than on the saving of the jobs that already existed.

Richmond, Virginia supports a minority business association and other neighborhood development activities with CDBG funds, but retention and stabilization is really what most of the funds are used for although they cannot be counted that way for HUD. Similarly, the Jersey City Economic Development Corporation offers a CDBG-funded small business loan program and has helped a number of companies that might have moved or closed without the loan. However, these efforts do not meet HUD's technical definition of job retention.

Over the past 20 years, the 28 largest cities have lost 31% of their manufacturing employment, a traditionally key sector for the employment of the types of people the CDBG program is designed to help. Keeping the remaining businesses, then, has become the main priority of many cities, particularly those in the Northeast and Midwest.

There are many good reasons for concentrating on business retention. First, more than 80 percent of jobs created come from within a community, instead of by attracting outside firms. This fact alone calls for an emphasis on business creation and expansion. Cities should concentrate on the expansion and retention of their existing businesses precisely because they are currently providing employment and tax dollars, and they do not need expensive marketing programs or incentives to draw them in. Furthermore, many of these businesses may expand, thus providing jobs to the area. This is particularly true if the right climate is engendered for business development by the city. Finally, creating a favorable atmosphere for existing businesses contributes greatly to business attraction as well. Existing businesses deserve their own attention.

Several cities have commented to us about the quality of the jobs that are created under their programs. It is a Catch-22 situation; communities are only allowed to count

jobs created that "benefit low- and moderate-income people," meaning that the wages are low and benefits often nonexistent. Higher-wage jobs, into which low- and moderate-income people could advance with some work experience, are not eligible for CDBG funds. Cook County, Illinois, officials maintain that the problem is that HUD defines economic development as simply job creation, when there is much more involved than counting LMI jobs.

Many businesses state that the prime reasons for locating or starting a business in an area are tied to the degree of education and training of the workers, the crime rate, and the general quality of life in the area. In this way, it is easy to see how community development and economic development are inextricably linked. Economic development cannot take place without successful community development. Likewise, it is difficult for community development to take place successfully without some residents working within the neighborhood or without a tax base to finance the degree of improvements needed. Furthermore, if economic development plans are successful, the pressure on government funds for housing will be lessened, as people will be able to afford their own houses and will contribute to improving their neighborhoods through local taxes. Both community development and economic development are needed, and the Community Development Block Grant program should be improved to allow both to occur.

CUED recently conducted a study of the jobs that resulted from CDBG-funded business financing programs in five major cities. The results of that analysis found that businesses in industries that export their goods or services from the community (such as manufacturing and business services) needed fewer dollars of CDBG investment per job created than businesses offering goods or services to the neighborhood. A number of studies have also shown that these export-oriented (or "value-added") businesses pay higher wages and offer more benefits than do neighborhood-oriented (or "neighborhood-based") businesses. Certainly one of the goals of the CDBG program is to help ensure that low-income neighborhoods retain businesses offering goods and services to their residents, and that role should not be diminished. However, this support should not occur exclusive of efforts to promote "value-added" businesses, which offer substantial economic opportunities to low- and moderate-income persons by creating more jobs that pay higher wages with less investment from CDBG.

## Recommendations

CUED would like to recommend four improvements to the current legislation that would make CDBG a more effective tool for economic development. Our recommendations focus on ways to reduce the burden on grantees, subrecipients, and businesses while maintaining accountability for the program's performance. Those recommendations include:

- Defining job retention as an important priority of the CDBG program.

- Adapting the required appropriateness analysis to make it more realistic to projects typically supported by CDBG.
- Allowing HUD to use training funds to improve the capabilities of Federal, grantee, and subrecipient staff to undertake economic development activities in joint training sessions.
- Reinforcing the intent of the 1992 Housing and Community Development by specifically directing HUD to presume benefit to low- and moderate-income persons for activities or residents employed.

*Recommendation 1. Define job retention as an important priority of the CDBG program.*

Congress should redefine job retention so that communities can provide assistance to businesses that already employ predominantly low- and moderate-income persons. In urban areas, almost all businesses are at risk in today's economic climate. In fact, business retention has become the most important issue facing cities. How can cities compete with suburban and exurban "greenfield" locations? When a business decides to move or expand, it looks at these relatively inexpensive suburban opportunities and compares them with the need to address significant environmental clean-up, inner city crime, and shortages of adequately equipped workers. Consequently, we have been witnessing the flight of businesses from the inner city, eroding local tax base and eliminating jobs currently available to inner city workers. Those businesses in the inner city that have a long-term chance of survival must retool, both in terms of equipment and human resources. In order to save jobs in distressed communities, economic developers need to take an innovative approach to business assistance that focuses on helping the company stay competitive. At the same time, economic developers are charged with helping LMI persons compete for jobs that require ever increasing skill levels. In this economic climate, if CDBG is to be a useful tool to benefit LMI populations, HUD must take a fundamentally different approach to its review, recognizing the longer term consequences of action--or inaction--on LMI persons in distressed communities.

HUD currently requires a community to document that jobs are at risk by obtaining an official notice of an impending plant closure or by showing that the financial condition of a business has deteriorated substantially. As a result of requiring this documentation CDBG-assisted support is often offered "too little and too late." For example, when a community gets an official notice of an impending plant closing, offering CDBG funding to offset capital or operating costs or lower debt service is usually irrelevant to the real needs of the company. Those companies have usually lost their markets and or lost their competitiveness in those markets. In other cases, they are trying to compete in world markets with an inadequate workforce that needs substantial skills improvements. It would be a valuable use of CDBG funds to help companies with productivity enhancements such as equipment up-grades or training aimed at keeping a company competitive and growing rather than waiting for it to recede to where "jobs would be actually lost." CDBG must be able to be used for support of strategic efforts to save jobs for LMI people over the long

run rather than only for last ditch efforts aimed at saving doomed companies and their employment.

There are two key issues. First, economic development practitioners need to be able to intervene in a company earlier--before it is too late to save the business and the jobs it provides. Second, economic developers must be able to help businesses enhance productivity--even if that may mean short-term job losses to support the long-term viability of the company.

The reality is that once a company has reached the point of issuing layoff notices, eliminating certain functions, or relocating from a community, it is often too late to provide any meaningful assistance to protect those jobs. The same is likely to be true when using the financial statements of a company to support a conclusion that the company might reasonably eliminate jobs. A well run company is apt to make this kind of a business decision long before their financial statements turn "bad."

Unlike the scenario that HUD's policies have laid out where a company executive simply wakes up one day and announces that the plant is closing, declining companies usually dwindle in employment numbers for many months or even years before they close. As a result of their declining profits, banks do not wish to lend large proportions of financing for such projects. This means that there is often a larger "gap" to be filled that may seem necessary at first glance. Unassisted, the company lays off a few employees annually until it can no longer operate and decides to close. It is not until this time that HUD allows the economic developer to step in and count the residual jobs as retained and attempt to package a loan for the company. Unfortunately, by this time, the company has declining profits and depreciated out-of-date equipment with little or no collateral value. So by waiting, the company ends up going out of business because it simply cannot obtain private financing--often even with CDBG assistance.

In older urban areas, successful business retention efforts help entrepreneurial companies maintain their competitiveness and, as a result, their respective market share. In some cases, this means helping them buy equipment to retool their operation so they can pursue new markets. In most cases, for the medium term, this does not mean job creation. Rather, downsizing may occur as the company increases its productivity. The companies that are increasing their productivity are the ones that have the capacity to grow and prosper if they can update their equipment and retrain their employees.

In either of these cases, proving that jobs will be lost is problematic because they may not be lost immediately without intervention. But, experience teaches us that businesses that are not productive and competitive face severe challenges in the marketplace. Without help, they suffer the same fate that disinvested communities often do--they deteriorate, decline, and eventually discontinue operations.



As such, Congress should direct HUD to provide communities with greater flexibility in assisting existing companies that may not be hiring more employees but that may need help to remain in their current location and improve their competitive position.

*Recommendation 2. Adapt the required appropriateness analysis to make it more realistic to projects typically supported by CDBG.*

In 1990 and 1992, Congress changed the standard and requirements related to undertaking an analysis of whether CDBG is an appropriate source of funds for specific economic development activities. The 1992 Housing and Community Development Act provided increased flexibility by establish six specific standards for analyzing the financial aspects of a project, but restricting HUD from overriding local funding decisions if the project did not meet each one of those standards. Furthermore, Congress provided additional latitude in reviewing certain financial criteria by requiring those reviews only "to the extent practicable."

At the same time, Congress provided additional restrictions on the program by directing HUD to establish guidelines for the appropriate level of public benefit that should result from an activity funded under CDBG. HUD is still promulgating regulations for both the 1990 and 1992 amendments so no public information currently exists as to how HUD will implement these changes.

There are three specific concerns which Congress should address as part of technical corrections to be made to the 1992 amendments. They include (a) providing additional direction on what the phraseology "to the extent practicable" means in relation to financial review of CDBG-funded projects; (b) better defining or restating the limitation of "reasonable return on investment"; and (c) directing HUD not to establish national standards for appropriate levels of public benefits.

First, Congress should direct HUD to pre-define certain circumstances in which a full financial review of the project's appropriateness need not be warranted. The goal is to identify certain types of projects or activities in which HUD will presume that a financial review has been performed without requiring all the documentation currently sought to verify that the financial aspects of an appropriateness analysis has been completed. One of the most common citations received from HUD's Inspector General Office for CDBG-funded economic development projects is caused by inadequate documentation that an appropriateness analysis has been completed. This inadequate documentation results from a lack of understanding as to what exactly is required and a resistance to what many view as burdensome paperwork that adds little value to the program. Congress should help overcome the latter issue by directing HUD to establish certain circumstances when a full analysis is not warranted. For instance, if the private sector invests in 60 percent of a project or activity initiated by a small business, then HUD could presume that reasonable non-Federal financial support exists for the project and that the private sector investors have examined the project costs and feasibility of the project. The goal is to create a system of

certain types of activities that would be encouraged and to substantially reduce (or even eliminate) the documentation required when reviewing the financial aspects of a project.

Second, Congress should make a technical correction to Section 105(e)(2)(E) of the Housing and Community Development Act as amended. The section requires HUD to ensure that activities "provide not more than a reasonable return on investment to the owner" "Return on investment" refers to a specific financial underwriting technique that applies to projects in which investors calculate an expected yield on their investment based on market alternatives, perceived risk, time allotted to the project, as well as other reasons. However, projects in which a business plan to use the facilities being financed, (referred to as user deals) include small businesses. These user deals are made on different standards than investor deals. In other words, using a "return on investment" (ROI) calculation for a user deal is somewhat like asking a National Football League quarterback for his Earned Run Average (ERA). It might be interesting if ERAs could be translated from baseball to football, but such statistical information would have no meaning relevant to football. Similarly, ROI information for small businesses, even if available, would be an artificial concept that would have no relevancy.

While ROI is used as a calculation to attract investors, businesses are trying to determine whether or not they can afford to invest in a specific project or activity. That requires a completely different analysis. For example, if a printing business was considering a \$500,000 expansion consisting of new equipment, it would typically project expected revenues, expenses, net profits and cash flow for the business, but not for the new equipment alone. Overall business growth depends on many factors in addition to the new equipment such as employees, management, sales and other variables. So return on investment, which would represent a ratio of expected net profit divided by the investment in the equipment, would not typically be calculated because it represents an artificial concept that does not influence the business owner's decision to invest.

Instead of ROI, small businesses determine their capacity to invest based on earnings or debt service coverage ratios. Meanwhile, bank credit analysts determine their willingness to lend by computing the ratios of actual and projected (1) debt to equity, (2) debt service coverage, and (3) profits to sales. These and other more conventional business credit analysis ratios should be used in place of return on investment for user deals. Specifically, in undertaking an appropriateness analysis for user deals, one can attribute the need for Federal financial assistance either to a "financing gap" or to a "locational gap." Conventional banks are interested keeping the debt to equity ratio as low as possible and debt service coverage ratio as high as possible. Projects that do not necessarily meet these standards might still be financially feasible, but would be considered too risky for conventional financing without public assistance. The financing gap is created when the private sector considers either the collateral available or the debt coverage ratio is too low to justify providing debt financing. The locational gap occurs when the private sector undervalues the collateral offered because of some perceived risk associated with the location of the project or activity.

Congress should reword Section 105(e)(2)(E) to state that "To the extent practicable, such activities provide not more than a reasonable return on investment to the investor or provide not more than a reasonable level of assistance to address an identified gap for the user of the facility being financed."

Third, Congress should direct HUD to help communities establish a process by which grantees articulate local priorities in terms of public benefits expected from CDBG-funded assistance and create a system for measuring their performance against locally established objectives. The public benefits anticipated by localities varies from community to community. While one grantee may expect CDBG to help increase the availability of jobs for low- and moderate-income persons, another may be more interested in the creation of a few quality jobs for low-income persons. Still another community might be more interested in creating entrepreneurial opportunities for residents while yet another is interested in promoting private investment in an empowerment zone or enterprise community.

Each of these objectives is laudable and fits within the framework of the overall national objectives established by Congress; however, measurement of success in achieving those objectives could vary widely from grantee to grantee. Congress instructed HUD to establish guidelines to ensure that the assistance offered is appropriate relative to the level of public benefits achieved by the project. As we understand, HUD has interpreted this paragraph as direction to establish national standards for determining an appropriate level of public benefits for CDBG assistance. Unfortunately, such an interpretation would significantly reduce the flexibility of grantees to develop their own priorities in terms of public benefits anticipated.

*Recommendation 3: Allow HUD to use training funds to improve the capabilities of Federal, grantee, and subrecipient staff to undertake economic development activities in joint training sessions.*

Congress has directed HUD to use Urban Development Action Grant recapture funds for Federal staff training and technical assistance funds for grantee training. These funding sources are not intermingled and thus they do not allow opportunities for HUD and grantee staff to receive joint technical training in economic development techniques.

Economic development efforts require people to make judgments about financial transactions and economic impacts. Practitioners must analyze risk and try to ascertain whether or not that risk is worth taking. Ever since Congress mandated that CDBG could be used to assist for-profit companies, there has been a tension between the fear of abuse and the desire to help low- and moderate-income persons. What type of training is offered to ensure that everyone understands these issues fully? What incentives do localities have to ensure that their staff has the skills to analyze a business' financial statements accurately? What incentive system does HUD offer its staff to ensure that they fulfill their role as a partner with localities in implementing economic development activities?

HUD currently has a number of technical assistance projects offering training on specific elements of the program--the regulatory side of how to ensure that the documentation requirements are fulfilled--as well as the technical side of how grantees can make projects happen. Most of the training and technical assistance is targeted to grantees and subrecipients. HUD staff are precluded from participating in this training because of Congressional restrictions on the funds. This makes little sense. HUD field staff should be participating in the same training sessions on the technical side to ensure that localities and HUD staff alike understand the risks and public benefits of the economic development initiatives being considered. Congress ought to allow this joint training by removing the distinction between training HUD staff and grantee staff when it comes to economic development and other technical issues related to program implementation.

*Recommendation 4 Reinforce the intent of the 1992 Housing and Community Development by specifically directing HUD to presume benefit to low- and moderate-income persons for activities or residents employed.*

The 1992 Act added a new subsection to Section 105(c) that allowed grantees to presume benefit to low- and moderate-income persons "if an employee resides in, or the assisted activity through which he or she is employed is located in a Census tract that meets the Federal enterprise zone eligibility criteria...." CUED proposes to change the words "enterprise zone" to "empowerment zone or enterprise community" to reflect the law passed in 1993. HUD's attorneys have not yet determined whether this section applies to the 1993 empowerment zone legislation. We believe it is very important and think Congress should clarify its intent in the statute.

Furthermore, Congress should direct HUD to certify as "eligible for designation" any community whose demographics are eligible and which has completed the strategic planning process in a satisfactory manner as required under the empowerment zone or enterprise community (EZ/EC) application process. Such a certification provides increased incentive to undertake the strategy development process required in the EZ/EC legislation and provides a tangible benefit to those communities undergoing the process even if they are not designated as EZ/ECs.

## **Conclusion**

More than 20,000 people are employed in Philadelphia alone due to jobs created as a result of the CDBG-assisted activities. Hundreds of thousands of low- and moderate-income persons have benefitted from this program. It is important that we not lose sight of this fact. Unfortunately, the good that the program has done has not made headlines, while a few problem projects have managed to do so. We should not let this negative publicity supplant the good that CDBG has brought to low and moderate income people's lives. Of late, economic development activities have been singled out as if they are the root of CDBG's problems. However, there have been no more problems with economic development than with any other activity area. The major issue is that these efforts are



saddled with overly vague or burdensome requirements that are more difficult to fulfill by grantees and subrecipients. As a consequence, we set up the grantees to fail in their documentation, thus creating issues of concern to the Inspector General's office.

We need to refocus our thinking on this program. We need to re-orient ourselves to making it as easy as possible to create or retain jobs for low- and moderate-income people and to expand the local tax base. These are the key public benefits that we are aiming to create. There is a long-standing fear by this committee that businesses only want to use this program to rip off the government. The fact of the matter is that few businesses really want to deal with the government. They seek local public assistance either because they are unable to access conventional financing or because we approach them in an effort to keep them from leaving from the community (through relocation or closure). We approach them because private sector businesses are the best source of jobs and that is what residents in our communities want--access to jobs. We need CDBG as a tool if we are to be successful in creating and retaining those jobs.

March 16, 1994, hearing held by the  
Subcommittee on Housing and Community Development,  
entitled "H.R. 3838, Housing and Community  
Development Act of 1994"

QUESTIONS FROM CHAIRMAN HENRY B. GONZALEZ TO  
MR. KENNETH DOBSON

1. What are your suggestions as how to promote the amount of economic development activities conducted by CDBG recipients. Will the UDAG recaptures, which may provide the Department with only \$100 million in extra funding, used in conjunction with the section 108 loan guarantees reduce communities' reluctance to engage in economic development activities with section 108 loan guarantees.

Are local community development agencies aware of the section 108 program and its requirements? Do they have the capacity to create viable loans arrangements with other organizations or is greater technical assistance needed to assist them? Do you feel as if HUD has the capacity to review these loan applications and make a informed judgement as to whether they are worth the risk?

2. In your estimation, what hinders communities from conducting economic development activities? Is legislative or regulatory change necessary to increase communities' participation in economic development activities?

3. How do you feel about increasing the public services cap in the CDBG program?

4. How do you feel about expanding the eligible activities for Section 108 loan guarantees for the purpose of financing non-housing, community facilities?

(Mr. Dobson's Responses)

**Questions from Chairman Henry B. Gonzalez to Mr. Kenneth Dobson**

1. a) What are your suggestions as how to promote the amount of economic development activities conducted by CDBG recipients.

The use of CDBG funds for economic development has been declining for several years. Only two percent of CDBG grantees used 45 percent of the total dollars for economic development in 1992 (GAO report, Community Development: Block Grant Economic Development Activities Reflect Local Priorities, p. 27). This decline can be attributed to two interrelated factors: (1) the HUD Inspector General's office (OIG) began to second guess local funding decisions related to economic development because the agency was under fire from other scandals and because economic development funding decisions are filled with judgment decisions that are often hard to document; and (2) the HUD program monitoring staff, responding to the HUD OIG's audit findings criticizing their performance, also began second guessing local funding decisions for economic development activities.

As a consequence, HUD began issuing policy guidance and related new regulations to address these overly cautious concerns. Whereas in the past, HUD was relatively flexible and pragmatic about its requirements for documenting that an economic development project was in compliance, the environment changed dramatically toward the end of the Reagan administration. In an effort to protect itself and taxpayers, HUD began to presume that CDBG funds were not being used in accordance with the statute unless more stringent documentation requirements were fulfilled. These new policies and regulations were so difficult for many communities to follow that many stopped using CDBG funds for that purpose.

CUED recommends four actions be taken that could improve the amount of economic development using CDBG funds by communities. These recommendations include:

- Defining job retention as an important priority of the CDBG program.
- Adapting the required appropriateness analysis to make it more realistic to projects typically supported by CDBG.
- Allowing HUD to use training funds to improve the capabilities of Federal, grantee, and subrecipient staff to undertake economic development activities in joint training sessions.
- Reinforcing the intent of the 1992 Housing and Community Development by specifically directing HUD to presume benefit to low- and moderate-income persons for activities or residents employed.

The final position is being addressed in proposed new regulations offering guidelines for economic development, but the remaining parts need much more attention. The written testimony of Kenneth Dobson, which is attached, provides in-depth reasoning behind each of these recommendations.

- b) Will the UDAG recaptures, which may provide the Department with only \$100 million in extra funding, used in conjunction with the section 108 loan guarantees reduce communities' reluctance to engage in economic development activities with Section 108 loan guarantees?

Better use of the Section 108 program is ultimately dependent on communities understanding and managing the risks associated with its use. UDAG recaptures might be helpful if they generate sufficient revenues and they are offered as part of the loan loss reserve pool available for the entire program. Currently, the ideas being offered suggest that small grants would be offered directly to individual grantees for flexible repayments and interest subsidies as well as loss reserves. The program is currently flexible in allowing communities to develop appropriate repayment schedules for businesses, and with current interest rates still near an all-time low, interest subsidies may not be necessary for many projects. However, it is still useful to have these tools available in case interest rates rise or for special projects that face tremendous cash-flow pressures in their early years.

- c) Are local community development agencies aware of the Section 108 program and its requirements? Do they have the capacity to create viable loan arrangements with other organizations or is greater technical assistance needed to assist them? Do you feel as if HUD has the capacity to review these loan applications and make an informed judgement as to whether they are worth the risk?

In the past seven years, fewer than 15 percent of all entitlement communities have used the Section 108 program. Because of its concern for this issue, CUED is working as a member of Partners for Community Economic Development, in conjunction with HUD's Office of Community Planning and Development, to provide a two-day training seminar for grantees to increase their knowledge and capacity for using the Section 108 program. Among other subjects, this intensive workshop will cover loan guarantee requirements, the application and approval process, and appropriateness and risk. Attendees will also learn about case studies of successful projects using Section 108 funding, like those in Kansas City, Missouri; Fairfax County, Virginia; and Utica, New York. Participants will also receive a Section 108 Reference Manual, which will be ready for distribution at the time of the seminars. Once HUD gives us permission to go forward, these sessions will be held all over the country throughout June and July, 1994, for entitlement public entities and states that are administering a CDBG program.

Unfortunately, because of Congressional restrictions on HUD's training funds, HUD field staff cannot also join in this valuable session. This may mean that in some cases, the administrators of the Section 108 program on the local level will be more knowledgeable than the HUD field staff that is supposed to review the loan applications. It is on this end that more training is necessary. Ideally, it would be best if HUD field staff and local CDBG administrators could be trained during the same session; however, statutory restrictions on the use of the funds for HUD staff training preclude intermingling HUD and grantee program staff during these training sessions. This could go far in improving communications between agency and grantee staff.



2. In your estimation, what hinders communities from conducting economic development activities? Is legislative or regulatory change necessary to increase communities' participation in economic development activities?

CUED feels confident that the CDBG economic development regulations about to be introduced by HUD will help address many of the program's past problems. We will wait for publication of these regulations before making additional recommendations related to regulatory improvements. A key concern for CUED members is that CDBG mandates are geared toward job creation when much of urban economic development is oriented toward retaining existing industries. A rethinking of Congressional priorities in this area is crucial.

3. How do you feel about increasing the public services cap in the CDBG program?

CUED is concerned about efforts to expand the definition of economic development simply to help communities avoid the public services cap. In our opinion, economic development should have a direct impact on job and wealth creation in communities.

4. How do you feel about expanding the eligible activities for Section 108 loan guarantees for the purpose of financing non-housing community facilities?

Again, CUED is concerned that expanding eligibility would increase pressure on communities to use their Block Grants for these non-housing facilities. It would also create numerous situations in which future elected officials are left paying for the decisions of their predecessors the payments for these facilities come due. The temptation will be for communities to use CDBG in lieu of general obligation bonds. Furthermore, there are a number of questions related to the security that would be made available for long-term Section 108 obligations should the CDBG program ever be terminated or drastically reduced.

**STATEMENT OF PATRICIA PAYNE**  
**DEPUTY SECRETARY OF THE MARYLAND DEPARTMENT OF**  
**HOUSING AND COMMUNITY DEVELOPMENT**  
**REPRESENTING THE**  
**COUNCIL OF STATE COMMUNITY DEVELOPMENT AGENCIES**  
**ON**  
**H.R. 3838 AND THE REAUTHORIZATION OF THE HOUSING AND**  
**COMMUNITY DEVELOPMENT ACT**  
**BEFORE THE**  
**HOUSE SUBCOMMITTEE ON HOUSING AND COMMUNITY**  
**DEVELOPMENT**

March 16, 1994



**Statement of Patricia Payne  
on HR 3838 and the  
Reauthorization of the Housing and Community Development Act  
on Behalf of  
The Council of State Community Development Agencies**

**March 16, 1994**

Mr. Chairman and distinguished members of the subcommittee, my name is Patricia Payne, and I am Deputy Secretary of the Maryland Department of Housing and Community Development. I am also a member of the executive committee of the Council of State Community Development Agencies and chair COSCDA's Housing Committee, and it is my pleasure to be here this morning for the opportunity to represent COSCDA in testimony on HR 3838 and the reauthorization of the Housing and Community Development Act. COSCDA represents 47 state executive agencies that manage a variety of Federal and state funded programs in the broad range of housing, community development, and economic development. All but one of COSCDA's members manage the non-entitlement CDBG program, and one-half or more of our members manage the HOME program and the McKinney Emergency Shelter Grants and Supportive Housing programs.

COSCDA has always recognized the leadership shown by the Chairman, the ranking minority member, and all the members of this subcommittee on housing and community development issues. And we again complement you on your support for the reauthorization of vitally important housing and community development programs. We are particularly pleased with the authorization levels recommended in HR 3838 for the CDBG and HOME programs.

My testimony this morning will concentrate on the CDBG and HOME programs. However, because we have an interest in the homelessness issue, our written statement briefly addresses some McKinney housing issues.

***Community Development Block Grant Program***

COSCDA believes that the CDBG program is one of the most successful and effective Federal programs. The wide range of eligible activities and the ability of grantees to tailor projects to meet varying community priorities are the heart of its' success. This flexibility and decentralization are the core reasons for the programs success, and these two characteristics need to be maintained and nurtured by Congress.

Two examples from Maryland illustrate the effectiveness of the CDBG Program.

St. Mary's County was awarded \$92,000 in State Small Cities (CDBG) funds to renovate and expand the resident manager's office at Tubman Douglass Estates into a child care center. The project was completed in 1992 in conjunction with the St. Mary's Housing Authority and serves up to 40 children from low-and moderate-income families.

Tubman Douglass Estates serves as home to more than three hundred people living in fifty single-family detached homes. First operated as a housing project in 1974, it was selected, in 1986, by HUD to participate in a national home ownership demonstration project. Currently, all homes are owned by their occupants.

In addition to a child care center, the facility is also being used for two daily sessions of the Head Start program. The Head Start program is operated by the Tri-County Community Action Agency, a local non-profit, which also uses the facility for evening classes in parenting and adult education. This project has been particularly successful in that it uses one facility for a wide variety of programs that directly benefits the Tubman Douglass community.

In August 1989, the City of Salisbury received a State CDBG grant of \$442,600 for Phase I of a six-phase project to design and construct an emergency/transitional housing shelter in cooperation with Joseph House Village, Inc., a non-profit homelessness provider. Construction began in March of 1991 and the 15-unit apartment building was completed in October, the same year. The shelter has the capacity to serve up to 45 persons.

In November 1991, the City of Salisbury received \$514,000 for the design and construction of Phase II, an educational/community center to house day care, health care, job training and counseling services for clients of Joseph House. April 1994 is the expected completion date of Phase II.

Joseph House Village, Inc. is a non-profit homelessness provider that takes a more comprehensive approach to homelessness than just providing a place to sleep. Clients are offered a drug and alcohol-free environment, with health care, day care and educational opportunities so they can work towards independence.

Our recommendations speak directly to the flexibility and the decentralization values of CDBG.



## Section 108

COSCD A supports HR 3838's amendment that provides a guarantee of obligations to the Section 108 program. All of us recognize the importance of jobs -- employment is essential if we are to help make people self-sufficient and improve the quality of lives for poorer people and in poorer communities. While the 108 program is new to states, several states have already undertaken 108-financed projects and others have projects under active review and consideration. Nonetheless, since states must distribute their CDBG funds to units of general purpose local government, many states have been hesitant to use 108 financing for fear of being unable to help meet serious future needs of local governments. The amendment proposed in HR 3838 will encourage more use of 108 financing, which can be essential to providing employment opportunities to poorer people and communities.

COSCD A respectively asks the subcommittee to consider several other recommendations for amendments to the CDBG program.

### Program Income

Our most important recommendation affects program income. Current law requires states to ensure that localities use program income in perpetuity according to Title I requirements. States deal with a large number of eligible localities and usually go for years before grant CDBG funds a second time to the same locality, and in some cases a state may not ever provide a second grant to a locality. The large number of eligible applicants, the sporadic nature of much state CDBG funding, the large geographic distances that most states must cover, and the very limited administrative funding the states have make this requirement impractical. States simply do not have the ability to ensure that all local program income forever meets Title I requirements whenever they use these funds. To deal with this issue, COSCD A recommends the following three amendments.

- 1. States should have the option to keep program income, which would eliminate the current requirement that states must permit localities to keep program income if they use it for the same activity.**

Some states would continue to permit localities to keep program income under this amendment, and some states would elect to keep program income. The states' recapture of program income serves several purposes. First, it will ensure that program income is used in accordance with Title I requirements. Second, it will generate a larger pool of program

income than it would at the local level. By pooling or aggregating the various program income streams at the state level, states can achieve an economy of scale that results in the immediate funding of meaningful-sized projects. Third, it will ensure a "competitive" distribution of funds that almost invariably means the funding of better, more beneficial projects than if a single locality funds projects. In addition, on occasion localities must sit on funds for a very long period-- of time before they find a project worthy of funding. Fourth, the states' retention of program income ensures competent fund management and administration. Grant administration requires some degree of expertise, especially if all the Title I requirements apply. Since states award about two-thirds of their grants to localities with populations of 5,000 or less and with part-time public officials, states simply have more management capacity to award and account for program income.

2. **Eliminate the requirement that localities use program income in accordance with Title I and require that program income is used for eligible CDBG activities.**

For program income that is kept at the local level, amending the law so that the income reuse must meet only eligible activity requirements would make both state monitoring and local management easier and more practicable and still ensure that the objectives of the CDBG program are met.

3. **Limit the states' responsibility for tracking local program income for income received after the project closes out to three years after close out of the grant that generated the program income.**

Even with program income requirements restricted only to eligible activities, requiring states to be responsible for monitoring forever is impractical. A three-year limit is reasonable.

### **Microenterprise Lending**

Our major recommendation in the area of economic development concerns using CDBG funds for microenterprise development: permit states to award grants to local governments for the purpose of capitalizing microenterprise loan funds. We recommend an amendment to Section 105 (a)(14) of the statute: "... Provision of assistance including **capitalization grants for revolving loan funds**, loans (both interim and long term) and grants for activities which are carried out by public for private nonprofit entities..."

States want to be able to make lump-sum drawdowns to capitalize microenterprise loan funds for several reasons. Most micro-lending occurs through revolving loan funds specifically designed for microenterprises -- this is the standard financing mechanism in the industry. Importantly, lump-sum drawdowns will streamline the administrative process for small business loans. Because of the scale of microenterprise assistance, nonprofit organizations are often the key player in helping to create microenterprises. Permitting local grantees to provide lump sums to nonprofits for microenterprise development will increase the capacity of this important delivery system. Also, a single loan fund capitalized with CDBG funds will serve the capital needs of several small business enterprises, not just one. Economies of scale can be reached -- in terms of paperwork and monitoring -- by treating the capitalization as a single project. Finally, by capitalizing a loan fund, CDBG funding can act as a leverage to attract additional dollars for community development.. Contrary to sitting idly by, as critics often contend about lump-sum drawdowns, the CDBG funds used to capitalize a loan fund could generate more capital.

### **LIFT**

Although COSCDA has no detailed knowledge of the Administration's efforts to emphasize economic development, COSCDA generally supports paying greater attention to job creation for low- and moderate-income persons. However, COSCDA strongly believes that the Administration's proposed LIFT program be authorized and funded separately from CDBG and that states be eligible applicants if Congress authorizes the program.

### **Disclosure**

Another recommendation that COSCDA makes to the subcommittee concerns the applicability of the HUD Reform Act (Public Law 101-325) and its disclosure requirement. Currently, all applicants for state CDBG funds must submit disclosure forms even though their chances of being funded may be less than one in six. COSCDA recommends that disclosure forms be required only from those applicants who are selected for funding. COSCDA also recommends that the disclosure requirements not apply to contracts awarded through open and competitive bidding.

### **Substantial Rehabilitation**

The last specific recommendation that COSCDA makes in regard to amending the CDBG statute deals with substantial rehabilitation. Current law requires that states obtain approval of the Secretary when a locality receiving state CDBG funds finds it necessary to use CDBG for substantial

rehabilitation. COSCDA believes that this requirement was inadvertently carried over from the entitlement language in the statute when the state program was first enacted in 1981. COSCDA recommends that states be given the authority to determine when substantial rehabilitation is necessary and appropriate. States can list their criteria and standards in their Final Statement and indicate that the cost of substantial rehabilitation must be less than the cost of new construction of a comparable home.

### **Cross-cutting Requirements**

There are several other issues with the CDBG Program that COSCDA would like to take this opportunity to mention briefly. Two of these issues concern the cross-cutting environmental and labor requirements. States spend about one-half of their CDBG funds for community infrastructure, mostly in small poor communities that are struggling to meet EPA standards and to possess a level of infrastructure minimally necessary for economic activity and growth. Because infrastructure is expensive, state CDBG grants are usually used in conjunction with funds from the Rural Development Administration and the Environmental Protection Agency. When this mixed funding occurs, localities can find themselves undertaking three environmental reviews for the same project! We are trying to work with the three Federal agencies to see if this redundancy can be eliminated. COSCDA believes that the environmental review conducted for the lead funding agency should be accepted by the other Federal agencies with funds in the project.

Second, a large majority of state CDBG grants go to nonmetropolitan communities, and these communities often find themselves working with CDBG and RDA funds. Yet, RDA funds have no Davis-Bacon requirements, while CDBG funds do. This inconsistency is confusing to these small localities; but more important, it reduces the value of all the financial assistance because Davis-Bacon wages which can increase projects costs by 20 percent have to be applied to the project. Again, COSCDA suggests that wage rate requirements follow that of the lead funding agency.

Finally, the Single Audit Act requires a single audit from any locality receiving in a year \$100,000 or more in Federal funds. HUD requires state CDBG officials to follow-up on any finding in the single audit even when findings relate to non-CDBG activities. This places an enormous workload burden on state CDBG staff. We believe that the agency administering the programs within which audit findings occur should be responsible for resolving those issues -- this would require that state CDBG officials respond only to audit findings in the CDBG grant.





*HOME Investment Partnership Program (HOME)*

COSCA members believe that the most effective housing delivery mechanism is a block grant approach which provides states and local governments the flexibility to address their own specific and very diverse housing needs. While implementing the HOME Investment Partnership Program has been extremely difficult due to its legislative and regulatory complexities, COSCA recognizes and appreciates the efforts of the Subcommittee to improve the program.

All of our comments on HOME are couched in the context of a federal-state partnership, and in our belief that states should be given greater latitude in administering HOME funds. COSCA strongly supports and greatly appreciates the reauthorization recommendations included in H.R. 3838 for the HOME program. It is especially important to continue funding HOME over the coming years so that states can proceed to establish an effective program administration infrastructure. While we believe that some very useful amendments can and should be made to the program, we are confident of our ability to use the funds for critically needed housing activities.

COSCA, however, would take this opportunity to express our concern and opposition to the \$25 million set-aside in the HOME program now proposed in H.R. 3838. COSCA commends the Subcommittee for recognizing and supporting the concept of increasing resources for capacity building in the areas of affordable housing and community development. However, COSCA believes that, as in the case of the Housing Demonstration Act of 1993, such efforts should be authorized separately, so as not to further dilute the limited resources of the HOME Program available for activities aimed at increasing the supply of affordable housing.

As evidence of the great need for these funds and to illustrate to the subcommittee that states are using HOME funds effectively, I would like to cite for the Subcommittee just a few examples of state involvement in the HOME Program. In my home state of Maryland we are currently utilizing HOME funds to assist first-time homebuyers in Garrett County, Maryland to purchase manufacturing housing by providing closing cost assistance and funds to permanently affix the mobile home to a site. Individuals purchasing mobile homes generally pay a higher interest rate if the unit is not permanently affixed to a foundation, because the applicant must apply for an installment loan rather than a real estate loan. The goal of the program is to allow lower income families to become homeowners. All participants will be at or below 55% of median income with an emphasis on targeting those at 30% of median. The Garrett County Community Action

Committee, Inc. will provide counseling to the families and assist them in securing a first mortgage loan through a private lender while the HOME funds will be secured by a second mortgage.

Developmentally disabled individuals will also receive first-time homebuyer assistance through HOME. Closing costs and downpayment assistance will be provided to citizens with disabilities in Charles and Harford Counties who are participants in the "Home of Your Own" project. This project is one of three national grants awarded by the US Department of Health and Human Services to encourage and facilitate homeownership and more independence for individuals with developmental disabilities, many of whom work and earn wages between \$12,000 and \$18,000 a year. That is considered a good wage for a person with serious disabilities, but nevertheless, is well under the poverty level. Very often the workers find themselves living in substandard, unstable situations or must continue to live with their families long after other siblings have left home. HOME funds provide the necessary downpayment and closing assistance that make it possible for these individuals to purchase a home of their own.

Working with Community Reinvestment Act (CRA) lenders, the State of New Jersey has set-aside \$1 million of its allocation to be used in eligible communities to assist low-income households in the purchase of their first home. Assistance to qualified first-time homebuyers, persons 60% of median income, may be in the form of grants or loans for downpayment and/or writedown of principal and closing cost expenses. The New Jersey Housing and Mortgage Finance Agency will administer the program on behalf of the state.

Through a coordinated effort with public housing authorities, non-profit organizations and one profit organization, Nebraska has setaside HOME funds to close the financing gaps on Farmers HOME Section 515 rental projects. Thus far, HOME has produced four six-plex projects for a total of twenty-four units of affordable housing for elderly persons that might otherwise not have been available without HOME. In addition, Nebraska, working through a non-profit organization, has created a first-time homebuyer program to develop new single-family units on regional basis for low to moderate income families with a family member experiencing a physical disability(ies). In this program, HOME may be used to construct accessible single family housing units which would be used for lease-purchase for persons/families unable to secure first mortgage financing. Currently, the program is estimated to provide down payment and closing cost assistance for 9 to 11 first-time homebuyers this year.

Many states prior to the enactment of the National Affordable Housing

Act of 1990 that were not greatly involved in housing are now active players in the development of affordable housing through the HOME program. The Montana Department of Commerce is currently working with the Human Resources Development Council, state-designated Community Housing Development Organization (CHDO), which will construct 20 single-family homes affordable to low and very low-income households and construct one rental four-plex to be owned by the Council. HOME funds will be used for new construction and first-time homebuyer assistance. Approximately 49 families will ultimately be served by this project with construction projected to be completed by the end of 1996.

Nebraska has used HOME funds to close the gap on Farmers Home Section 515 rental projects. Through a coordinated effort with public housing authorities, a non-profit organization and one for profit organization, HOME has produced 24 additional units for the elderly. In addition, Nebraska, working throughout non-profit organization, has developed a first-time homebuyer program to develop new single-family units on a regional basis for the physically disabled. Nebraska has also utilized HOME funds to create CHDOs on Indian reservations.

The State of Oregon has developed a unique program promoting self-sufficiency by linking HOME-funded tenant-based rental assistance with human service programs through effective local agency collaboration. Community Action Agencies (CAAs) and local housing authorities act as conduits for the state in targeting rental assistance to very low-income tenants who agree to be involved in a social services program geared towards increased self-sufficiency. These agencies receive HOME funds based on the percentage of very low-income households in their service area. Typically the housing authority qualifies the family for the program and administers the rental and/or security deposit payments. The CAA provides the case management and coordinates the social service component of the program.

COSCD A wishes to express its appreciation to the Subcommittee for taking a leadership role in helping to make these affordable housing activities a reality. Moreover, COSCD A commends the Subcommittee for its support of the proposed HOME amendments included in H.R. 3838. These changes address some of the difficulties states have identified in effectively administering HOME and will greatly enhance the use of HOME particularly in rural and nonmetropolitan areas. COSCD A believes that the following statutory changes will enhance the program's flexibility and thereby provide an effective housing delivery system.

**1. Simplification of Matching Requirements.** While the 1992 Act

took an important step towards alleviating the difficulties presented by a complicated three-tiered match, COSCDA continues to maintain that varying match requirements should not "steer" funding to certain housing activities that may be inconsistent with housing needs and priorities identified in the state's CHAS. COSCDA supports the bill provision which reduces match requirements for new construction from 30 percent to 25 percent thereby providing one uniform match for all HOME affordable housing.

**2. Removal of "First-time Homebuyer" restrictions.** The definition restricting "first-time homebuyer" to an individual and his or her spouse not owning a home during the 3-year period prior to purchasing a home with HOME assistance should be eliminated.

**3. Simplification of resale provisions.** COSCDA supports amending the HOME requirement that recaptured homeownership funds must be used only for homeownership by allowing them instead to be used for any HOME-eligible activity. This will provide Participating Jurisdictions (PJs) the flexibility to direct funds to other priorities as needed.

**4. Use of CDBG Funds for HOME Administrative Expenses.** COSCDA is supportive of this amendment. Due to the expansive administrative requirements associated with the HOME program, eliminating the use of CDBG funds for administrative expenses has only compounded the difficulties PJs have experienced in fully implementing the HOME Program. While the 10% allowance in the HOME program attends to some of the needs, many states have already or plan to use the same staff to administer the CDBG and HOME programs. This restriction has made this efficiency exceedingly difficult. It not only has undermined a State's ability to effectively administer the program, but also has lead to greater inefficiency and cost through the creation of duplicate staffs.

**5. Project Delivery Costs.** CDBG funds used to offset these costs would be exempt from the 20% cap. This would make the HOME statute similar to other housing and community development programs operated by states and localities and avoid a great deal of confusion that exists among grantees.

**6. Simplification of Program-wide Income Targeting.** Rental housing income-targeting would be simplified by counting units assisted rather than the funds invested, 90% of the units assisted (families in the case of tenant-based rental assistance) must be below



60% of median income.

**7. HOME Environmental Review.** Consistent with the CDBG program, State HOME PJs may delegate environmental review responsibilities to local governments. States do not have the capacity to conduct environmental reviews for each project, but local governments have developed this capacity through the CDBG program.

**8. Stabilization of HOME funding thresholds.** A permanent threshold of \$500,000 would be set for determining new local participating jurisdictions with current local PJs held harmless regardless of program appropriation levels.

**9. Participation by State Agencies or instrumentalities.** The definition of "State" is broadened to cover agencies or instrumentalities of those States" currently covered, provided that those agencies or instrumentalities are established pursuant to legislation and designated by the chief executive officer to act on behalf of the jurisdiction with regard to the provisions of the National Affordable Housing Act of 1990. This facilitates the operation of the HOME program in those states where governors have designated the state housing finance agency as the administering entity.

COSCA supports the above nine amendments to the HOME program and believes that their enactment will make HOME program more effective and efficient. There are several other issues in the HOME program that COSCA would like to bring to the attention of the subcommittee at this time although we do not couch them as specific recommendations for amendments. One is that many grantees and developers find the rent calculation requirements confusing and sometimes producing a situation that makes it difficult to coordinate Section 8 rental assistance with HOME funded projects. To respond to this situation, it may be appropriate simply to require that a rent not be greater than the Fair Market Rent, rather than keeping the current requirement: rents must not be greater than the lesser of the existing Fair Market Rent or not exceeding 30 percent of the adjusted family income or a family whose income equals 65 percent of the area median income.

States still have some problem in rural areas with the definition and involvement of CHDOs. Some of these problems arise because the very specific criteria for designation as a CHDO do not fit the characteristics of many of the nonprofits that operate in rural areas. But states are trying to facilitate the development of CHDOs, and perhaps this dilemma may be

resolved over time. However, a more pertinent difficulty is that many rural nonprofits, even if they alter their characteristics to meet CHDO criteria, are experienced only in such housing activities as scattered-site housing rehabilitation, home repair, weatherization, and tenant-based and homeownership assistance. These activities are very relevant to the housing needs in many rural areas; yet, the law requires CHDOs to "own, sponsor, or develop housing" under the 15 percent mandatory setaside -- precluding many of the above-mentioned housing activities. COSCDA believes CHDOs should be permitted to undertake any eligible HOME activity within the 15 percent CHDO setaside.

Finally, the current requirement for annual on-site reviews is a daunting and cumbersome task for many states, especially those with projects scattered over large rural areas. Monitoring is essential, but HUD should have the authority to negotiate a monitoring plan for states that safeguards use of the HOME funds but is less costly and more practicable than annual on-site inspections.

#### *Comprehensive Housing Affordability Strategy (CHAS)*

COSCDA reserves support for the CHAS amendments currently included in H.R. 3838 without further clarification as to their specific objectives. We are concerned that these amendments may have significant consequences for state CHASes.

While COSCDA supports the concept of State housing strategies, COSCDA also believes that there are distinctions between State and local CHASes which necessitate different plan requirements for two reasons. First, State CHASes cover a much larger geographic area that includes hundreds of eligible local governments, and address a far wider variety of needs and issues than local CHASes, making it highly burdensome for States to present detailed housing data for every part of the State. Second, States play a very different role from local governments in housing. Rather than funding housing providers or clients directly, many States work through local governments or regional entities that establish application criteria and award funds. In addition, States set and oversee policy and determine the allocation of State housing resources.

Congress greatly expanded the role of the CHAS as a blueprint for linking housing and human service programs in the 1992 Act. The law now requires that the CHAS include an anti-poverty strategy outlining the PJs goals, programs, and policies for reducing the number of households with incomes below the poverty line. COSCDA supports the premise of utilizing the CHAS as a mechanism for advancing the goals of self-sufficiency and

economic independence particularly through housing and human service program linkages as suggested in the anti-poverty strategy. However, the State CHAS should function more as a coherent, comprehensive policy document for the State as a whole, rather than acting as a compilation of specific data needs and issues.

COSCA supports amending the statute with specific language which recognizes and designates the State CHAS as a policy document for the State as a whole. This language should indicate that the guidance for state CHASes is to be designed differently from that for local CHASes in order that state CHASes meet the different needs and perform different functions from local CHASes. This change would allow the State to set broad directions and goals in the use of State housing resources rather than specifying, on some very local level, how a particular set of housing dollars should be used. Such a document would not preclude a State from taking a more direct funding role since additional information could always be collected or analyzed where a State has identified specific housing trends or problems.

### *The HUD-Proposed Consolidated Plan*

The Department of Housing and urban Development (HUD) has started the process of developing requirements that consolidate the Comprehensive Housing Affordability Strategy (CHAS), a Non-Housing Community Development Plan, the CDBG Final Statement, the HOME Program Description, and Emergency Shelter Grant Program and Housing Opportunities for Persons with AIDS (HOPWA) applications into one planning document. COSCA supports the overall goal of enhancing states' ability to use HUD resources in a fashion that fits the needs and priorities of states and their communities, especially in meeting the needs of lower income people. However, COSCA also believes that if a consolidated planning process and document is going to be one of the tools to help states and localities use HUD resources to their maximum effectiveness, the consolidation must meet several criteria.

As HUD proceeds with evaluating methods for consolidating these documents, the Department should recognize that the powers and duties of most state governments in regard to community planning and development vary among states and are very different from their counties and municipalities. Most state governments have a very general role and limited direct authority in the community planning and development process in contrast to that of municipal or county Entitlement communities which have independent or delegated powers for comprehensive master planning, transportation and capital improvements planning, subdivision

regulation, and zoning.

The states' primary role in HUD housing and community development programs is to set a method for distributing program funds. Ideally, a consolidated plan should set a framework for local governments, community organizations, and developers to evaluate housing and community development needs and proposals -- recognizing the diversity of local communities housing and community development needs and opportunities, and offering guiding principles rather than state mandates on local activities. Given that each local community has its own needs, based on population, geographic location, financial resources and other related variables, the development of a state-wide consolidated plan at best can be only a broad policy strategy to direct resources in a manner that recognizes and supports the efforts of local governments to address their identified needs. Generally, states can only respond to proposals developed from the "bottom up".

Because significant change in the role of states must recognize the unique institutional, geographic, and political structures of states, the Department should consider a length of time appropriate, possibly two years, for an effective and orderly phased implementation of this integrated plan for states. A transition year would provide states an opportunity to develop a process of coordination to accomplish the consolidation effort involving representation and input of all effected state agencies and grantees. Such a transition would insure that the process includes and the eventual plan addresses local issues and concerns. State agencies would then be in a position to begin developing a consolidated plan having had time to readjust their own operations and program planning and development to be on similar schedules with other state agencies administering program components. As an interim, HUD might also consider a small pilot program involving a representative group of states with diverse institutional, political, and geographic characteristics and issues. This would provide HUD a mechanism for identifying and responding to various difficulties involved in developing an integrated plan at the state level.

Finally, we are concerned about the applicability of integrating program statements, like the CDBG Final Statement and the HOME program description, into a long term consolidated planning document.

#### ***MCKINNEY HOUSING PROGRAMS***

The McKinney Act housing programs have provided a much needed resource for the states to provide homeless assistance within their



jurisdictions. We applaud the creation of the program and the financial support they offer.

COSCA has historically supported the consolidation of the McKinney Act housing programs. The reasoning behind this is three-fold. First, we feel that too much time and effort is now being spent applying for funding under the various McKinney Act housing programs. The funding process is highly competitive and it affords little chance to small communities and rural areas to receive an award. These communities have inadequate resources to effectively draft an application but that, if given the opportunity, could effectively address the issue of homelessness within their jurisdiction. Second, as it stands now, the programs have differing application cycles and application processes, including eligibility requirements. It would make sense to "streamline" the process by consolidating the program requirements and funding cycles. Consolidation of the programs would make the entire application and funding process much easier. Finally, consolidating the programs based on a formula distribution of funds would ensure a stable commitment of resources for a wider range of recipients. Using a formula-based allocation would allow recipients to effectively plan for and address the issue of homelessness.

Homelessness is an issue which deserves great attention and focus. Attention to the problem involves the appropriation of adequate, stable annual funding and the active involvement and cooperation between the three levels of government. State is emphasized here because we want to stress to you the importance of states in the implementation and delivery of funds and services to assist the homeless. Many states have already developed and implemented numerous initiatives on their own to combat homelessness within their jurisdictions. States are in a unique position to assist in the effort, and they are closely linked with both the Federal and local governments. Any programs developed at the Federal level should involve the States' input and guidance. In its proposed budget, HUD mentions forming a partnership with local government and private, nonprofit groups, but does not give consideration to the states. This may have been an oversight; however, we object to the omission and we stress to you today the importance of the states in the process of alleviating homelessness in America and hope that the states will be considered a partner in every Federal effort.

HUD proposes to "reorganize" McKinney by consolidating several homeless programs, including ESG and the Supportive Housing program, into one new program called the Homeless Assistance Grants program. As stated previously, COSCA supports consolidation of the McKinney Act housing programs to the extent that the consolidation will allow for a more

streamlined process and a more equitable distribution of funds through a formula based allocation. To that accord, we conceptually support the Administration's efforts to streamline the programs and initiate a formula-based allocation system. Our members are worried that if the funds are awarded on a competitive basis, rural areas will have little chance of receiving funding.

If the McKinney Act housing programs are consolidated and the funds provided to recipients on a formula basis similar to that of the CDBG program, states would like to see a small portion of the allocation used for administrative costs. This will allow states, many of whom have few administrative resources, to hire staff to administer the program.

Lastly, COSCDA supports a "continuum of care" system that will fill the gaps of the current system by transitioning homeless persons to full independence. COSCDA members would, however, like for the Administration to focus on providing funding for existing homeless programs, many of which serve the homeless very well, and not for the creation of new, short-term "innovative" homeless initiatives.

We recognize the difficulty you face in deciding on the funding levels of the various programs which fall under your subcommittee's auspices. We support the subcommittee's proposed funding levels H.R. 3838 for the various McKinney Act programs. Your recommended appropriations increase the funding levels for both the Emergency Shelter Grants program and the Supportive Housing program above their 1994 levels. Your recommended appropriations signify your active support to assist in alleviating homelessness in America. We thank you for your support.

Finally we want to raise briefly two suggestions regarding possible changes in specific McKinney programs. Regarding the Emergency Shelter Grants Program we suggest eliminating the caps for prevention and essential services and increasing the time period within which prevention funds may be used, from 180 days to one year, so that funds can be used during the winter months, which is the most critical time for most homeless providers.

Mr. Chairman, this completes COSCDA's statement. Again, we congratulate the Chairman and members of the subcommittee for their strong support of housing and community development programs and thank you for the opportunity to testify before the subcommittee. COSCDA will be pleased to provide you or your staff with additional information on topic addressed in this statement.

March 16, 1994, hearing held by the  
Subcommittee on Housing and Community Development,  
entitled "H.R. 3838, Housing and Community  
Development Act of 1994"

QUESTIONS FROM CHAIRMAN HENRY B. GONZALEZ TO  
MS. PATRICIA PAYNE

1. What are your suggestions as how to promote the amount of economic development activities conducted by CDBG recipients. Will the UDAG recaptures, which may provide the Department with only \$100 million in extra funding, used in conjunction with the section 108 loan guarantees reduce communities' reluctance to engage in economic development activities with section 108 loan guarantees.

Are local community development agencies aware of the section 108 program and its requirements? Do they have the capacity to create viable loans arrangements with other organizations or is greater technical assistance needed to assist them? Do you feel as if HUD has the capacity to review these loan applications and make a informed judgement as to whether they are worth the risk?

2. In your estimation, what hinders communities from conducting economic development activities? Is legislative or regulatory change necessary to increase communities' participation in economic development activities?

3. How do you feel about increasing the public services cap in the CDBG program?

4. How do you feel about expanding the eligible activities for Section 108 loan guarantees for the purpose of financing non-housing, community facilities?

5. Can you comment on CHDO activities, their expenditure rates, and capabilities? Are participating jurisdictions still having difficulties in identifying CHDOs?

6. How often are HOME funds being used for tenant based rental assistance?

7. In your testimony you have noted HUD's interpretation of statutory provisions concerning match. Can you give us other examples of regulatory "over interpretation"--not now but in writing, so that if necessary we can reaffirm Congressional intent?

March 16, 1994, Hearing Held by the  
Subcommittee on Housing and Community Development,  
Entitled "H.R. 3838, Housing and Community  
Development Act of 1994"

RESPONSE TO QUESTIONS FROM CHAIRMAN HENRY B. GONZALEZ  
FROM PATRICIA PAYNE

1. Economic Development Activities with Section 108 Loan Guarantees.

The provision of additional funds (\$100 million in UDAG recaptured funds) for HUD's Section 108 Loan Guarantee Program is welcome. Both COSCDA and I believe that the limited availability of funding frequently is a constraint to widespread use of Section 108 loan guarantees. While CDBG entitlement jurisdictions (cities and urban areas) have used these guarantees over the past 12 years, CDBG non-entitlement jurisdictions (states and rural local governments) have had access to the program only since 1990. Most states and local governments are aware of the program, but have been reluctant to use it. This reluctance is in part related to local capacity; however, it also reflects the level of risk inherent in the type of activities funded. Traditionally HUD's Section 108 Program has been used to guarantee large projects, e.g. costing \$5.0 million or more. If such a project fails and a state's CDBG funds were required to cover this default, a substantial portion of the state's CDBG allocation would no longer be available for other important projects. Typically a state has requests from local governments equal to three times its annual CDBG allocation. Since we in Maryland have not used HUD's Section 108 Program, I have insufficient knowledge to respond to your question regarding HUD's staff capacity to review the loan applications or to administer the Program.

2. Use of CDBG funds for Economic Development Activities.

In Maryland we use one third of our annual CDBG allocation for economic development. Legislative and regulatory requirements have constrained greater use of CDBG funds for economic development in Maryland. The "Kondratas Memorandum" (internal HUD policy memo considered equally binding as formal regulations) unduly restricts the use of CDBG funds for this purpose. This memorandum should be rescinded, and states should be allowed to set their own underwriting standards for economic development projects. In addition, the CDBG program would be more conducive to funding economic development projects if: 1) the documentation requirements, especially the "full range of direct effects requirement," were reduced or eliminated; 2) the level of present funding at which Davis-Bacon wage rates were required were increased; 3) the program income



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accounting and tracking requirements were simplified to allow program income to be treated as miscellaneous income under certain circumstances, and 4) residential anti-displacement and relocation plans were not required for projects which resulted in no displacement. These are just a few of the numerous CDBG requirements which make the CDBG program for private businesses "user-friendly."

3. Increase of the Cap for Public Service Activities funded by CDBG.

Currently HUD's CDBG Program has capped the amount of funding that both entitlement and non-entitlement jurisdictions can spend on public service activities at 15% of the annual total allocation. For the entitlements or cities, because of the high demand for funding for such activities, this cap has become a constraint. An increase of the cap to 20% would allow additional CDBG funding for these needed activities. For the states and rural local governments (the non-entitlements), the demand for CDBG funds for public services has rarely exceeded 5% of any given annual allocation. To the extent, however, that the demand could increase in the future for such activities in the rural areas, COSCDA and I believe that consideration should be given to raising the cap on CDBG-funded public service activities.

4. Expansion of Eligible Activities Under Section 108 Program.

COSCD and I are generally supportive of expansion of the types of eligible activities under the Section 108 Program. The financing of non-housing and community facilities adds greater flexibility and could result in increased use of the Program. It also may result in increased leverage of public and private capital.

5. HOME and CHDO Activities.

In Maryland, we have little difficulty in identifying Community Housing Development Organizations (CHDOs) as defined by the HOME Investment Partnership Program. To date we have certified six CHDOs operating throughout Maryland's rural areas: 1) Garrett County Community Action Committee; 2) Interfaith Consortium of Greater Cumberland; 3) Interfaith Housing, Inc.; 4) Shore Up, Inc.; 5) Southern Maryland Tri-County Community Action Committee; and 6) Western Maryland Interfaith Consortium. They are capable and experienced developers of affordable housing. Generally their ability to complete a housing project takes longer than it takes private developers.

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Despite Maryland's ability to identify and certify capable CHDOs, we and COSCDA still maintain that the current definition constrains HOME participating jurisdictions from certifying even larger numbers of CHDOs. For instance, in Maryland we have promoted heavily the sponsorship and development of affordable housing in the religious community. Most church sponsored nonprofit housing developers usually have boards of directors composed almost entirely of members of the religious community. To become a CHDO, these organizations have to restructure their boards or reincorporate and establish a new subsidiary nonprofit to be eligible as a CHDO. This is only one example of the constraint resulting from the current definition of a CHDO.

6. HOME Funds Being Used for Tenant Based Rental Assistance.

Maryland has not allocated any of its state HOME funds for rental assistance; however, it is an eligible use. Baltimore County and Montgomery County do use HOME for tenant assistance. Nationally, less than half of the states use HOME for rental assistance.

7. HOME - Examples of Regulatory Over-interpretation.

♦ Monitoring Requirements:

Annual and biennial inspections should not be required of all housing assisted with HOME funds. This is particularly burdensome for states because of the land area that must be covered. States can spend considerable staff time and money traveling to all corners of its state to do inspections. A more viable approach would be to allow the state to develop a monitoring plan, with HUD approval, that sets standards for inspections, certifications and review.

♦ Definition of a Project:

The current definition states that a project may include more than one site only if the sites are within a four block area of each other. This definition creates an administrative and paperwork burden since it may not be possible, particularly in small urban areas, to meet this restrictive definition. For example, if a nonprofit sponsor wants to rehabilitate four houses for rental to a special population and the houses are located within a five block area of each other, the participating jurisdiction must set up and track more than one project. The definition of a project should be changed to say that projects may be composed of land and buildings which are not contiguous or located in a concentrated area, but which are under the same ownership and management.

♦ Environmental Review:

The regulations require that an environmental review be completed for all rehabilitation and new construction activities. Even though many small projects are categorically excluded, at a minimum, they must be reviewed for environmental factors and paperwork completed documenting the results. This requirement affects both processing time and staff resources. An exemption from the environmental review process should be provided for one-to-four unit acquisition or rehabilitation projects that do not involve a change in use.

THE HOME INVESTMENT PARTNERSHIPS PROGRAM

Presented by Henry Flores  
Executive Director

Texas Department of Housing and Community Affairs

on behalf of the  
National Council of State Housing Agencies

before the Subcommittee on Housing and Community Development of the  
House Committee on Banking, Finance, and Urban Affairs

March 16, 1994

Mr. Chairman, Representative Roukema, and members of the Subcommittee, it is a great pleasure for me to testify before you this morning on the success of the HOME Investment Partnerships (HOME) program.

My name is Henry Flores. I am Executive Director of the Texas Department of Housing and Community Affairs, the HOME administering agency for the State of Texas. I am testifying this morning on behalf of my state and the National Council of State Housing Agencies (NCSHA).

NCSHA's member state housing agencies administer the HOME program in 35 states and are responsible for about 65 percent of all state HOME funds. That is over \$1 billion dollars to date. In additional states, Housing Finance Agencies (HFAs) contribute to HOME administration through project evaluation and underwriting.

I want to commend you, Mr. Chairman, on introducing legislation (H.R. 3838) that would re-authorize the HOME program at \$2.2 billion in FY 1995 and make other valuable changes. I also want to thank the other members of the Subcommittee who cosponsored the bill, especially Congresswoman Roukema, who has also introduced legislation containing important HOME provisions. We especially appreciate your proposals to make the HOME match uniform at 25 percent, clarify that instrumentalities such as HFAs may administer HOME for their states, and allow states to delegate environmental reviews to localities.

We are urging the congressional appropriations committees to fund HOME in FY 1995 at least at the FY 1994 appropriation of \$1.275 billion. We ask the members of this Subcommittee, as the authorizers of the HOME program and some of its strongest supporters, to take every opportunity to convey to Chairman Stokes (D-OH), Representative Lewis (R-CA), and the other members of the VA, HUD, and Independent Agencies Subcommittee



the importance of maintaining or increasing the level of HOME funding in FY 1995.

I am very happy to report that HOME is rapidly becoming one of the great success stories of housing policy and is well on its way to becoming the fastest-spending program in HUD's history. As of February 28, 61.4 percent of FY 1992 and nine percent of FY 1993 HOME funds were committed by HUD's definition. Nearly 30 percent of FY 1992 HOME funds had been disbursed. These figures have grown exponentially over the last few months and will continue to do so over the next year.

Given the dramatic progress jurisdictions have made in implementing HOME, we are puzzled and deeply troubled that HUD has not placed higher priority on funding it. For FY 1995, HUD has requested only \$1 billion for HOME. This is a 22 percent cut from FY 1994, half the authorized level, and equal to the lowest appropriation for the program in any previous year. We have been particularly disturbed that HUD tried several times in the last year to raid the HOME program for funds for other initiatives, citing what Secretary Cisneros still describes as a low spendout rate.

The disconnect between HOME's performance and HUD's perception is evident in the Presidential Performance Agreement which HUD released just two weeks ago. In it, HUD pledged to increase the FY 1992 HOME commitment rate from seven percent to 50 percent by June of this year, a curious target when the rate is already over 60 percent. We hope that the Department will recognize soon that HOME is one of the most effective tools available to provide a wide range of affordable housing and will give it the funding priority it deserves. We also hope that HUD will begin hailing HOME's high commitment rate, instead of referring to the low rate of over a year ago.

The commitment rate for HOME funds is actually even higher than it appears, because HUD's existing definition of commitment fails to fully recognize many legally binding obligations of state and local HOME funds. Under HUD's definition, even a signed contract between a participating jurisdiction and a project sponsor is not considered a commitment if it is for rental assistance, assistance to first-time homebuyers, or rehabilitation of owner-occupied homes. By this definition, a commitment does not exist until each and every individual tenant or homebuyer has been identified, completed his or her paperwork, and been entered separately (or in batches where tenants meet certain criteria) in HUD's cash and management information (C/MI) system.

As a result, unless the definition is changed, in less than one month HUD will start recapturing funds which states have placed under contract with project sponsors. Re-allocations of HOME funds which states have

already awarded will cause havoc within the program and raise serious questions about states' legal standing vis a vis project sponsors who are holding contracts for the funds.

Fortunately, at our request HUD agreed to re-examine its definition of commitment and has recommended to OMB that the definition be revised to recognize funds as committed when the state or local government enters into a legally binding agreement with the project sponsor to provide a specified amount of HOME funds for an eligible activity. This is consistent with what state and local governments generally understand to be a commitment of funds, and is essentially how funds are recognized under the Community Development Block Grant program.

Although HUD initially indicated that it would correct the flawed definition only for FY 1992 funds, at our urging it decided that the best solution would be to correct the definition permanently. It is our sincere hope that OMB will endorse this approach. We would like to take this opportunity to commend Assistant Secretary Andrew Cuomo, Deputy Assistant Secretary Ken Williams, and the HUD staff for their efforts to correct the definition.

Let me stress that our effort to correct the definition of commitment is not intended to create an "easy out" for jurisdictions which are unable to commit their funds. Those jurisdictions will still have their funds recaptured. This change is intended only to ensure that legitimate commitments of HOME funds are fully recognized.

I would like to also note that a number of jurisdictions have been slowed in committing their HOME funds because of problems with the C/MI system. HUD currently has a number of projects pending to improve the system, such as making possible electronic transfer of data. It is not clear, however, that the Department will commit sufficient resources to carry through on them. We would appreciate the Subcommittee's support in encouraging HUD to carry out these important improvements.

### **HOME Is a Tremendous Success in Providing Low Income Housing**

Due to the normal startup time for a complex new program, unworkable provisions included in HUD's first HOME rule, and the major legislative revamp of the program in late 1992, the HOME program was not fully operative in its present form until early 1993, just one year ago. The program's accomplishments since have been remarkable.

HUD reports that as of February 28, participating jurisdictions (both state and local) had committed HOME funds to nearly 60,000 low income

units and families. Because the HUD staff processing the commitments have a backlog of at least a week, and because of other problems with C/MI, the actual commitments are even higher than HUD reports, even using HUD's definition.

The majority of the funds, 71.7 percent, will be spent on rehabilitation, with 19.2 percent of funds committed to new construction. Of these funds, 13 percent will assist first-time homebuyers, and 26 percent will provide rehabilitation assistance to existing homeowners. About three percent of HOME funds are currently committed to rental assistance.

Participating jurisdictions are succeeding in targeting their HOME funds to those very low income families most in need of assistance. As of February 28, nearly 88 percent of occupied units in completed projects served very low income families, those with incomes of 50 percent of median income or less. Over 56 percent of occupied units assisted very, very low income families, those with income of 30 percent of median income or less. HOME funds are also assisting very low income homeowners, with 64 percent of assisted homeowners having incomes of 50 percent of the median income or less. Over 97 percent of renters and 78 percent of homeowners had income of 60 percent of median income or less.

By HUD's definition, state participating jurisdictions have committed 58 percent of their HOME funds to over 23,000 units of low income housing. About 70 percent of the funds are committed to rehabilitation, 20 percent to new construction, and 4.5 percent to rental assistance. About 10 percent of these funds are assisting first-time homebuyers, and nearly 38 percent are providing rehabilitation assistance for owner-occupied homes. About 53 percent of state funds are being provided for rental housing.

So far, states have provided rental housing to about the same proportion of families with incomes less than 30 percent of median income as have the average of states and localities combined - 56.9 percent as compared to 56.7 percent, but slightly less to families in the 31-50 percent of median income category - 26.2 percent to 31.1 percent. However, states are targeting their assistance to homeowners even more deeply than the average, with 37.5 percent of assisted families having incomes at or below 30 percent of median as compared to 27.2 percent for states and localities combined. States have committed 10.6 percent of their funds to Community Housing Development Organization (CHDO) projects and reserved, but not yet committed, another 6.3 percent for CHDOs.

### The State of Texas' HOME Program

The State of Texas received an FY 1992 HOME allocation of \$31.4 million, to which we have added \$5.6 million in state matching funds. As of March 9, 95 percent of these funds were committed. We made HOME funds available for every HOME-eligible activity. Demand for owner-occupied rehabilitation, a high priority in our Comprehensive Housing Affordability Strategy (CHAS), was particularly great and received nearly 60 percent of our FY 1992 funds. Rental projects received another 32 percent. We also funded tenant-based rental assistance and first-time homebuyer programs.

The State of Texas has three basic tests for whether a HOME project ought to be funded:

- 1) Does it help poor people?
- 2) Does it change the future of the state?
- 3) Is it cost-efficient?

These are the premises under which we operate the HOME program in the state of Texas. With that in mind, we have so far funded over 1,783 HOME-assisted units, of which 58 percent were for very low income families. Just over 1,000 of those units serve persons with special needs, particularly the elderly and people with mental disabilities.

Next year, we plan to even more aggressively direct the use of our funds. In particular, we expect to emphasize first-time homebuyer programs and rental projects in the next funding rounds. Programs to create new homeowners are critical to helping lower income Texans realize the American dream of economic self-sufficiency. Decent, affordable rental housing is also sorely needed for those not yet able to attain homeownership.

I am pleased to report that we have had an excellent response from CHDOs. We awarded 32 CHDOs nearly 29 percent of our FY 1992 funds. The majority of grantees under our program are local governments, which received about 60 percent of our funds.

An example of the type of innovative program being funded under the Texas HOME program is the New Beginning Center, located in Garland, Texas, which we awarded \$100,000 in HOME funds to provide tenant-based rental assistance (TBRA) to poverty level battered women on the Section 8 waiting list. The Center also received funds from other federal programs and corporation and foundation grants.

The HOME TBRA will be combined with a comprehensive service delivery system that supports the development of independent living skills and simultaneously addresses the financial and emotional needs of battered



women and their children who are at risk of becoming homeless. The TBRA funds will make it possible for the women to receive longer term rent assistance while they are working towards self-sufficiency and independence.

The HOME program is succeeding in building creative new partnerships among public and private entities. An example is a joint program of the City of Edinburg and the Edinburg Housing Authority which we funded to finance construction of 18 single family homes to be sold to low and very low income families currently residing in public housing.

The City will use its HOME funds to provide 100 percent upfront financing for the construction of the first 11 units. As these units are completed, a local financial institution will buy a portion of the mortgage. The city will then recapture that money to begin construction of the remaining units. The AFL-CIO Investment Trust will assist in the second phase of development of the subdivision by purchasing a portion of each loan. The city will also provide a \$10,500 deferred loan and a \$12,250 zero interest loan. The remaining mortgage of \$12,250 will be financed by a local financial institution with a 25-year repayable loan at no more than 5 percent interest.

#### States Are Leveraging HOME Funds with MRBs and the Tax Credit

HFAs have found creative ways to combine HOME with other programs they operate, thus leveraging the HOME funds to greater benefit. The New Jersey Housing and Mortgage Finance Agency (NJHMFA), for example, has received \$1.4 million in HOME funds from the state Department of Community Affairs to combine with Mortgage Revenue Bond (MRB) financing under its existing "100 Percent Mortgage Program." The HOME funds are used to underwrite all downpayment and closing cost expenses for first-time homebuyers with incomes of no more than 60 percent of median income receiving MRB loans. The HOME funds may also be used in conjunction with other mortgages provided by private lenders.

The program helps to stimulate residential construction, particularly in the context of urban revitalization, by issuing commitments primarily to developers of new housing which has also received subsidies to reduce the purchase price. Nearly 70 percent of the loans made under this program in 1991 and 62 percent in 1992 went to minority homebuyers. Single parents have also received a substantial number of the mortgages - 30 percent in 1991 and 48 percent in 1992.

The Maine State Housing Authority (MSHA) has used HOME funds in an existing MRB program for rehabilitation of owner-occupied homes. Working through private lenders, typically nonprofit agencies, MSHA uses

HOME funds to further write down its already low interest rate MRB home improvement loans to even lower rates. Targeting primarily very low income borrowers, the lenders work with each family to determine its financial resources. The interest rate is based on the family's ability to pay. For example, a six percent MRB loan may be written down to as little as one percent under this program.

MSHA also utilizes HOME funds to provide the most needy homeowners a zero-percent deferred loan for as much as \$15,000 (the MRB home improvement loan limit) that is due only upon sale or assignment of the property. MSHA has already purchased over 40 loans using HOME funds under this program.

HFAs have financed numerous rental projects using the Low Income Housing Tax Credit (Tax Credit). In fact, the first completed HOME project funded by the Florida Housing Finance Agency was a 192-unit apartment complex in Kissimmee, Florida. The project combined a \$2 million HOME loan with Tax Credits and private financing. The HOME loan was provided as a 15-year second mortgage with a three percent interest rate.

The Minnesota Housing Finance Agency (MHFA) has combined HOME and Tax Credits to fund a 32-unit townhome project in St. Cloud for low income families with children. Twenty-four of the units have three bedrooms and the remainder have two. The project offers a number of self-sufficiency programs, including pre-employment skills training, parent education classes, tutoring for school-age children, and on-site licensed daycare. In addition to the HOME and Tax Credit financing, the project was assisted by the Federal Home Loan Bank Affordable Housing Program, the MHFA Housing Trust Fund, and other partners.

### **NCSHA Supports Virtually All HOME Provisions in H.R. 3838**

NCSHA supports the following HOME amendments contained in H.R. 3838:

- Re-authorize HOME at a level of \$2.2 billion in FY 1995 and \$2.3 billion in FY 1996.
- Level the HOME match to 25 percent for all activities, including new construction which currently has a 30 percent match.
- Allow states to delegate responsibility for environmental reviews to localities receiving HOME funds from the state as is allowed under the CDBG and Rental Rehabilitation programs.

- Expand the definition of state to include instrumentalities, thereby clarifying that HFAs may act as the state under HOME. Although 27 HFAs have operated their state HOME programs, without incident, HUD has precluded two HFAs from acting directly as the state administrator on the basis that their enabling legislation established them as separate from state government.
- Change the accounting system for low income targeting under HOME to require that 90 percent of the units assisted benefit low income people rather than the currently required 90 percent of the funds expended. This will simplify program administration, because tracking a percentage of units is less difficult than tracking a percentage of funds.
- Allow HOME funds recaptured from homeownership units to be used for any eligible HOME activity. Currently, such funds must remain in a homeownership program.
- Remove the requirement that HOME funds used for home purchase assist only first-time homebuyers. Any low income homebuyer could then qualify for assistance.
- Allow CDBG funds to be used to pay for HOME administrative costs, subject to the 20 percent cap on the use of CDBG for administrative costs generally.
- Remove project delivery costs (soft costs related to construction/reconstruction) under CDBG from the 20 percent administrative cap. This would make it easier for jurisdictions to contribute CDBG funds to HOME project delivery costs.
- Eliminate a duplication in current law which requires that HUD conduct two separate annual audits of HOME. Only one audit is necessary.

There is one HOME-related provision in H.R. 3838 which we do not support and which we strongly urge you to amend. Section 211 of H.R. 3838 would authorize \$25 million in HOME funds to be set aside for the National Community Development Initiative (NCDI). While we do not object to an authorization for NCDI, we believe strongly that the HOME program should not be diluted by set-asides for other programs. We urge you to authorize NCDI separately, as you did in last year's HUD Demonstration Act.

We also have some question about Section 205, which requires a jurisdiction to certify not just that its HOME program is consistent with its Comprehensive Housing Affordability Strategy (CHAS) but that it is "complying with" the CHAS. We are not clear as to the purpose of this

amendment or as to its effect, and would like to work with the Subcommittee to ensure that it does not place an undue burden on states.

### NCSHA Supports Additional HOME Amendments

We also encourage the Committee to consider the following HOME amendments, which would further ease administration of the program:

#### Make HOME Rents More Compatible With Other Federal Programs

Currently, HOME-assisted rental units must bear rents not greater than the lesser of existing Fair Market Rent (FMR) or rent that does not exceed 30 percent of 65 percent of median income adjusted by unit size. This has created difficulties in combining HOME with some other forms of federal assistance, such as the McKinney SRO program under which Section 8 assistance is provided at rents up to 120 percent of FMR.

We believe this administrative problem can be overcome by regulating the tenant contribution rather than the rent level, as is done under the Tax Credit program and as is already authorized for the 20 percent of HOME rental units in each project which must be targeted to families with incomes not more than 50 percent of median income. For example, the rent requirement might be amended such that individuals pay as a contribution towards rent not more than 30 percent of 60 percent of median income, adjusted for unit size consistent with the Tax Credit. This will make HOME more attractive as a resource to combine with programs like the Tax Credit and McKinney which allow rents to be set higher than the tenant contribution with the difference made up by rental assistance.

#### Revise Monitoring Requirements

State HFAs believe that monitoring is essential to ensuring long-term compliance with low income use restrictions. However, we believe the yearly on-site review currently required for HOME is more frequent than necessary. Therefore, we recommend that the HOME monitoring standards conform to the standards NCSHA has advocated for the Tax Credit, under which jurisdictions would perform an annual desk review of tenant files supported by an on-site review of each project in its first year and every three years thereafter. This would ease the administrative burden while still ensuring regular compliance monitoring.

#### Clarify Small State Allocations

We urge the Subcommittee to clarify that the additional HOME allocation provided to states which have no local participating jurisdictions is



\$500,000, as stated in current law, not the \$335,000 which HUD has imposed by regulation. Congress instructed HUD to adhere to the statutory allocation of \$500,000 for FY 1994, but needs to ensure that HUD does so in all future years.

### Allow Waivers for HOME Funds in Disaster Areas

We encourage the Subcommittee to authorize HUD to waive some requirements for HOME funds received through the annual allocation process and expended in disaster areas. This would be similar to authority previously provided for HOME funds appropriated specifically for disaster relief, but would apply to all HOME funds and would further assist jurisdictions in recovering from disasters.

### The Match Conundrum

Many jurisdictions continue to struggle with identifying HOME match, in part because of concerns about how to deal with HUD's interpretation of the provision which Congress approved in 1992 to clarify that state and local funds invested in housing which qualifies as affordable under HOME but is not HOME-assisted counts as match (HOME-eligible housing).

Our understanding is that HUD's pending interim rule will require that repayments of matching contributions from both HOME-assisted and HOME-eligible projects be made to the jurisdiction's HOME account to receive match credit. We believe this will undermine state and local programs by drawing off repayments, interest earned, and investments from the state program into the HOME account. The purpose of the matching requirement is to ensure that state and local jurisdictions commit their own funds toward affordable housing, not to build up the HOME account. State matching funds should be allowed to return to the state housing programs they were drawn from, just as federal HOME funds return to the HOME program.

We believe that Congress intended that resources committed to state programs providing similar housing opportunities to the same range of income levels as under HOME should count as match. We do not believe Congress intended to force states to redesign their programs to conform to the HOME rules in minute detail. HUD's excessively legalistic reading of the HOME-eligible provision could exclude a substantial portion of state resources committed to housing programs from counting as match. In some cases, for example, the definition of income under a state program may vary slightly from the HOME definition which HUD established by regulation. We believe HUD should allow the state definition to take precedence in this type of situation so that states are not required to recalculate the incomes of every assisted family, an exercise which will waste enormous amounts of time only to determine that every or virtually every assisted individual in fact qualifies

under either definition. HUD should also accept minor variations in rent limits, affordability or recapture requirements.

HUD's proposed rule on HOME-eligible match also required that jurisdictions put in place detailed, signed agreements with project sponsors that all relevant HOME requirements are met. This is an unnecessary administrative burden. Jurisdictions should be able to simply certify that their HOME-eligible match is in projects meeting the relevant requirements. Such self-certification is already accepted under other HOME provisions. If HUD does not change this requirement in the interim rule, it will put an unnecessary burden on project sponsors and participating jurisdictions.

### **Conclusion**

The HOME program is one of the great success stories of affordable housing policy. This dynamic partnership between the federal government, states and localities, and nonprofit and for-profit project sponsors is creating a wide range of affordable housing across the country. With just a few, largely technical improvements, HOME will even more effectively serve the low and very low income families who rely on it for decent, affordable housing.

March 16, 1994, hearing held by the  
Subcommittee on Housing and Community Development,  
entitled "H.R. 3838, Housing and Community  
Development Act of 1994"

QUESTIONS FROM CHAIRMAN HENRY B. GONZALEZ TO  
MR. HENRY FLORES

1. Can you comment on CHDO activities, their expenditure rates, and capabilities? Are participating jurisdictions still having difficulties in identifying CHDOs?
2. How often are HOME funds being used for tenant based rental assistance?
3. In your testimony you have noted HUD's interpretation of statutory provisions concerning match. Can you give us other examples of regulatory "over interpretation"--not now but in writing, so that if necessary we can reaffirm Congressional intent?

Response to Questions from Chairman Gonzalez to Henry Flores

Housing Subcommittee Hearing on CDBG Program and HOME Investment Partnerships Program

March 16, 1994

- 1) Can you comment on CHDO activities, their expenditure rates, and capabilities? Are participating jurisdictions still having difficulties in identifying CHDOs?

One of the greatest challenges for states in implementing their HOME programs has been identifying CHDOs. Because there were no, or virtually no, existing CHDOs in many areas when HOME was created, states have undertaken vigorous campaigns to create them. While states with a strong nonprofit base could convert existing entities into CHDOs relatively easily, in many cases, especially in rural areas, CHDOs have had to be built from scratch. States have put a great deal of effort into generating interest among potential CHDOs and helping them through the process of qualifying for CHDO designations. The FY 1992 CHDO technical assistance funds provided through nonprofit intermediaries have helped in this effort.

While the states' efforts have resulted in the creation of numerous CHDOs in some areas, turning these "paper" CHDOs into genuine housing producers will still take a great deal of capacity building and training in many instances. The infrastructure is slowly being created, but the capacity in many cases is still very weak. This may still lead to a few states being unable to fully commit their FY 1992 CHDO set-asides, although most expect to make the 24-month deadline. That deadline met, the real challenge of turning these CHDOs into housing producers that can expend their funds within the three years remaining to them will begin.

The State of Texas, for example, has succeeded in creating 100 CHDOs and committed about 22 percent of its FY 1992 HOME funds to 25 of them. Many of these new CHDOs have very limited capacity. The Texas Department of Housing and Community Affairs is working with them to provide both technical assistance to begin operations and assistance in actual program development. The State will also be hosting a conference later this year with local participating jurisdictions to discuss how the State and its localities can work with one another to address mutual challenges, including building up a strong CHDO network.

One reason that developing CHDOs in rural states has been so difficult is that the CHDO concept was based on an urban model. Nonprofit organizations in rural areas, such as Community Action Agencies, often have



focused their resources on those activities, like home weatherization, which are most relevant to areas which have relatively little multifamily housing. This is also true in some urban areas. For this reason, the requirement that the CHDO set-aside apply only to housing "owned, developed or sponsored" by a CHDO has restricted some states' ability to commit the funds. This definition prevents home repair programs and tenant-based rental assistance programs from qualifying under the CHDO set-aside. These states would benefit from authority to allow CHDOs to undertake any HOME-eligible activity.

**2) How often are HOME funds being used for tenant-based rental assistance?**

As of March 8, about 4.5 percent of state HOME funds and 2.9 percent of all HOME funds committed on HUD's cash and management information system (C/MIS) were designated for tenant-based rental assistance (TBRA). That percentage may increase slightly with the change in definition of commitment included in the fifth interim HOME rule, since the previous definition did not recognize all the funds jurisdictions had awarded for TBRA. The change in definition will allow jurisdictions to record the remainder of the HOME funds they have awarded for TBRA as committed.

However, even with this change we do not anticipate that the percentage of funds designated for TBRA will increase dramatically, since relatively few jurisdictions are using funds for that purpose. For example, in response to a survey NCSHA conducted last summer, 13 out of 31 state respondents reported that they were awarding funds for TBRA.

The State of Texas awarded 3.1 percent of its FY 1992 HOME funds and 3.3 percent of its FY 1993 HOME funds for TBRA. TBRA funds were awarded only as part of a holistic approach to self-sufficiency for the assisted families.

**3) In your testimony you have noted HUD's interpretation of statutory provisions concerning match. Can you give us other examples of regulatory "over interpretation" -- not now, but in writing, so that if necessary we can reaffirm Congressional intent?**

As described in our testimony, issues relating to HUD's interpretation of "HOME-eligible" match constitute our single greatest concern about regulatory "over-interpretation." In fact, in the last few interim rules HUD has corrected many of the regulatory problems which we had identified. However, there are still some regulatory issues which concern us.

For example, while the HOME statute sets the initial purchase limit for ownership housing at 95 percent of the area median purchase price, HUD has

established an additional requirement that the "after-rehab" value of the property not be more than 95 percent of the area median purchase price. In other words, a participating jurisdiction must estimate what the value of the property will be after any repairs are made and ensure that it does not exceed the purchase price limit.

It is our view that the "after-rehab" value is not relevant to whether the property is affordable to a low income purchaser. Obtaining an appraisal of what the property might be worth in the future based on repairs that have not yet been made is difficult, costly, and an unnecessary burden for the participating jurisdiction, project sponsor, and low income homebuyer. The statutory purchase price limit should be sufficient.

We also continue to be frustrated that HUD has defined a "project" under HOME as an undertaking that occurs within a four-block area. This definition requires jurisdictions to treat scattered site housing financed as one project with one project sponsor as several projects for administrative purposes. This results in unnecessary paperwork for both the project sponsor and the participating jurisdiction. Jurisdictions should be permitted to identify for themselves what constitutes a project.

We expect to identify other issues in our comment to HUD on the fifth interim HOME rule, which is scheduled to be published April 19 and will be open for comment until mid-June. We would be happy to forward our comments to the Subcommittee at that time.

March 16, 1994

Rep. Michael N. Castle

QUESTIONS FOR WITNESSES

HOUSING SUBCOMMITTEE HEARING ON CDBG PROGRAM  
AND HOME INVESTMENT PARTNERSHIP PROGRAM

**COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM (CDBG)**

\* The HUD Inspector General has reported that some communities receiving CDBG grants are not funding projects that truly benefit low and moderate income persons. Do you have any comments on this issue? Specifically, do you think it is a problem and how can we ensure that these funds go for true community development projects and are just not used as some nice extra money for cities and local governments to use?

\* What is your view of the HUD application and decision process for CDBG grants? How can it be improved? Should HUD combine the CDBG and HOME application process?

\* Another criticism of the CDBG program is that it is very slow in allocating funds. In 1993 there was a \$3 billion backlog in unspent and unallocated funds. How can this problem be solved?

\* Do you have any views on the CDBG allocation formula? Is it fair or should it be changed and in what manner?

\* Secretary Cisneros has proposed a LIFT program (Neighborhood Leveraged Investments for Tomorrow). This program would use \$200 million of CDBG funds for a competitive grant program to provide subsidies to leverage private investment in distressed neighborhoods. Is this type of program better left to state and local governments? How do you view the LIFT proposal?

**HOME Investment Partnership Program**

\* Do you support the proposal to make the matching requirement for HOME funds a flat 25 percent for state and local recipients?

\* What types of programs have you used HOME funding for?

\* Other than an increase in funding, how can the HOME program be improved to make it more responsive to state and local needs?

(Hon. Schmoke's Responses)

## Questions to Baltimore Kurt Schmoke from Rep. Michael Castle

o The HUD Inspector General has reported that some communities receiving CDBG grants are not funding projects that truly benefit low and moderate income persons. Do you have any comments on this issue? Specifically, do you think it is a problem and how can we ensure that these funds go for true community development projects and are just not used as some extra money for cities and local governments to use?

Response: While the HUD Inspector General might find that some communities do not fund projects that benefit low and moderate income persons, this would be the exception rather than the general rule. The overwhelming majority of local governments expend more than 90 percent of their CDBG funds for activities benefitting low and moderate income persons. The use of CDBG funds is simply not a problem. In those few communities where there is a problem, HUD should use its enforcement authority to bring those communities in line with the law.

o What is your view of the HUD application and decision process for CDBG grants? How can it be improved? Should HUD combine the CDBG and HOME application process?

Response: At present, HUD is working on the consolidation of HOME and CDBG. That is the planning processes of these two programs as well as other programs in the agency's division of Community Planning and Development. We believe that this is a worthwhile development and will facilitate the application and decision process for CDBG grants.

o Another criticism of the CDBG program is that it is very slow in allocating funds. In 1993 there was a \$3 billion backlog in unspent and allocated funds. How can this problem be solved?

Response: The problem of the slow spending of CDBG funds was an issue during last year stimulus debate. Again, if there is a problem, it is with a few cities. CDBG funds are spent at a frequent rate. There are always funds in the pipeline for any housing and community development programs, and this is true for CDBG as any other program. There is no serious problem.

o Do you have any views on the CDBG allocation formula? Is it fair or should it be changed and in what manner?

Response: HUD is currently looking at the CDBG allocation formula, and will soon make recommendations to change it. Our concern is that when changes are made that there will not be changes so great that communities participating in the program will experience hardships. We look forward to working with the subcommittee on the final allocation formula.



o Secretary Cisneros has proposed a LIFT program (Neighborhood Leveraged Investments for Tomorrow). This program would use \$200 million of CDBG funds for a competitive grant program to provide subsidies to leverage private investment in distressed neighborhoods. Is this type of program better left to state and local governments? How do you view the LIFT proposal?

Response: The LIFT program is a sound concept, and it would not be better left to state and local government (that is for funding the concept). The problem that we have with LIFT is that it could draw funding from existing housing and community development programs, and this we oppose.

#### HOME Investment Partnership Program

o Do you support the proposal to make the matching requirement for HOME funds a flat 25 percent for state and local recipients?

Response: Yes we support the flat match for HOME of 25 percent for state and local governments. We have called for such a match for some time now.

o What types of programs have you used HOME funding for?

Response: We are building rental housing and rehabilitating existing housing.

o Other than an increase in funding, how can the HOME program be improved to make it more responsive to state and local needs?

Response: With the many legislative and administrative changes that have been made in the program over the last several years, HOME has become a sound housing program. From time to time, we will have suggestions for improving HOME as we do with other housing and community development programs, but at present there are no real significant changes that we would called for.

(MR. BLANKENSHIP)



**National  
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April 7, 1994

The Honorable Michael N. Castle  
U.S. House of Representatives  
1205 Longworth House Office Building  
Washington, D.C. 20515

Dear Representative Castle:

On behalf of the National League of Cities and the City of Birmingham, I want to thank you for the opportunity to respond to your questions concerning the Community Development Block Grant (CDBG) and the HOME state and local block grant programs. I have enclosed additional material to supplement my responses to your questions.

1. The HUD Inspector General has reported that some communities receiving CDBG grants are not funding projects that truly benefit low and moderate income persons. Do you have any comments on this issue? Specifically, do you think it is a problem and how can we ensure that these funds go for true community development projects and are just not used as some nice extra money for cities and local governments to use?

The National League of Cities strongly supports the CDBG program. We believe this program is a very effective form of federal assistance to local governments for mobilizing resources and solving housing and community and economic development problems. The longevity of the program speaks for itself. We fully believe that communities are meeting the primary purpose of the program: "the development of viable urban communities, by providing decent housing and a suitable living environment and expanding economic opportunities, principally for persons of low and moderate income."

Determining whether a city project primarily benefits low and moderate income persons is difficult especially when it involves infrastructure. We believe the overwhelming majority of cities use these funds in good faith. Where there is clear evidence of bad faith, those communities not meeting the primary purpose of

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CDBG should be penalized -- not the overwhelming majority who are in compliance with the program. We believe that CDBG can and should be targeted to benefit low and moderate income people without a burdensome application. We support adequate review, monitoring, and enforcement procedures, and we urge that HUD be provided sufficient staff to meet these responsibilities.

It is important to add that carrying out the purposes of CDBG requires adequate funding. It is critical that funding for CDBG be kept, at a minimum, at 1994 levels. Cutting CDBG will cause significant damage to local efforts to revitalize communities. In fact, maintaining CDBG at the 1994 level is a three and a half percent cut in real dollars. This means the 1994 level of funding for CDBG will not go as far in 1995 as it did in 1994.

2. What is your view of the HUD application and decision process for CDBG grants? How can it be improved? Should HUD combine the CDBG and HOME application process?

The consolidation of earlier categorical programs into what is today the CDBG program has achieved a more workable set of federal/local relationships in the community development field. It has simplified the grant-in-aid process, provided more local flexibility in setting priorities and implementing programs, and encouraged greater local accountability. These are important achievements. They can be lost, and further improvements prevented, if restrictive regulations are applied nationwide without regard to diverse local and regional conditions or if unnecessary complications and "red tape" are added.

These achievements can also be lost if the program's purposes are not adequately reflected in regulations and if overall direction is lacking. The result will be enforcement that is postponed until audits are completed. Combining the CDBG and HOME application process is a concept that makes sense to us.

3. Another criticism of the CDBG program is that it is very slow in allocating funds. In 1993 there was a \$3 billion backlog in unspent and unallocated funds. How can this problem be solved?

There is an incorrect assumption that CDBG funds are not being spent quickly enough. The reality is that the funds you are referring to are "obligated" to projects already underway in local communities. It must be understood that construction projects take approximately 18 months to complete. Local governments have entered into legally binding agreements with contractors to spend these funds. The backlog argument is simply a political one with no substantive evidence to support it.

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**4. Do you have any views on the CDBG allocation formula? Is it fair or should it be changed and in what manner?**

NLC endorses the "dual formula" for distributing CDBG funds. Although we believe the dual formula provides a relatively equitable distribution of funds, we recognize that there is no perfect formula. We are concerned that the distribution of CDBG funds reflect, to the maximum extent possible, the relative needs of cities.

We support the 70 percent 30 percent division of CDBG monies between the entitlement and the small cities program, respectively. We are concerned about drastic reductions in funding for related housing and development programs, with a corresponding expansion in eligible activities under CDBG. Without significant increases in CDBG monies, this puts undue pressure on the program at the local level.

**5. Secretary Cisneros has proposed a LIFT program (Neighborhood Leveraged Investments for Tomorrow). This program would use \$200 million of CDBG funds for a competitive grant program to provide subsidies to leverage private investment in distressed neighborhoods. Is this type of program better left to state and local governments? How do you view the LIFT proposal?**

Conceptually, we support the premise behind LIFT, however, we oppose any effort to fund it with CDBG money. We will withhold judgement on the substance of the program until HUD provides us with more specific information on its structure.

**6. Do you support the proposal to make the matching requirement for HOME funds a flat 25 percent for state and local recipients?**

Yes. We believe the flat match will ease the financial commitment communities must make to HOME projects.

**7. What types of programs have you used HOME funding for?**

In my written testimony, I have provided examples of how communities are using HOME funds. In Birmingham, we have used our HOME funds primarily for housing rehabilitation.

**8. Other than an increase in funding, how can the HOME program be improved to make it more responsive to state and local needs?**

I have enclosed a summary of legislative and regulatory issues pertaining to HOME that are endorsed by NLC, the United States Conference of Mayors, the National Association of Counties, the Association of Local Housing Finance Agencies, the National Community Development Association, and the National Association



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of County Community and Economic Development. A review of this document will provide you with the issues that we believe need to be addressed in HOME.

In closing, I want to thank you once again for the opportunity to respond to your questions. If you have any additional questions, please forward them to Julio Barreto at 202-626-3029.

Sincerely yours,

*Eddie Blankenship*

Eddie Blankenship, Chair  
NLC Community and Economic Development Policy Committee  
Council President, Birmingham, Alabama

cc: enclosure



**1994  
LEGISLATIVE AND REGULATORY  
AGENDA FOR THE  
HOME INVESTMENT PARTNERSHIPS  
PROGRAM**



## 1994 LEGISLATIVE AND REGULATORY AGENDA FOR HOME

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The following list of 1994 legislative and regulatory proposals for the administration and Congress grew out of discussions with our allied organizations and a HOME survey of NCDA's membership earlier this year. While this document attempts to address a number of the HOME legislative and regulatory concerns raised by the national organizations representing local elected officials, we may expand this list at a later date. During the upcoming reauthorization, we will be working with our respective leadership and membership as well as the Congress and the administration to develop recommendations for the enhancement of the HOME and CDBG programs.

### Reauthorization/Legislative Changes to the HOME Program:

(\* = Those changes proposed in the Community Development and Housing Act of 1993, S. 1299.)

**\*1. Uniform Match Requirement:** Replace the two-tiered 25%/30% non-federal matching requirement with a flat 25% uniform match. Modify the automatic match waiver to eliminate the phased reduction of either 50% or 100%. Communities should be able to qualify for a complete 100% waiver if they meet either of two distress criteria: poverty or per capita income; and

**2. Rent Calculations:** Replace the existing requirement that eligible rental housing bear rents not greater than the less of existing Fair Market Rent (FMR) or an amount not exceeding 30 percent of the adjusted income for a family whose income equals 65 percent of the area median, with a requirement that a rent not greater than the FMR may be charged. This would increase the program's flexibility and allow it to be used with Section 8. In the event that HOME is used with another program with a more stringent rent requirement, like the Tax Credit, that standard would have to be used.

**3. Targeting Requirements for Rental Housing:** Delete the present requirement that a HOME-assisted project must have at least 20 percent of the units set-aside for those at 50 percent of median income or less; replace the current program-wide targeting of 100 percent of the funds at 80 percent of median or less, and 90 percent of the funds at 60 percent of median or less, with a requirement that 100 percent of the funds be spent on activities which benefit those at 80 percent of median or less. This change would conform the rental housing targeting to that which applies to ownership housing and it would make it as relatively easy to do rental housing as it is to do ownership housing. While this change would make the program more flexible, it would still require that when used with another program with deeper targeting that targeting be met. It is anticipated that in the absence of a targeting requirement below 80 percent of median that deeper targeting would still be achieved, which was the experience under the HoDAG and Rental Rehabilitation programs.

**\*4. Calculate Targeting by Units Assisted Rather Than Funds Spent:** Rather than using "the percentage of funds expended" as the basis for determining whether a jurisdiction is meeting its rental housing income targeting requirement, it is proposed that HOME utilize the "percentage of units assisted" to determine compliance with the

income targeting provision. With this change, the income targeting requirements would now dictate that at least 90 percent of the units assisted (rather than funds invested) must be occupied by families whose incomes do not exceed 60 percent of the median family income for the area and the remaining units (rather than funds invested), up to 10 percent, must be by families below 80 percent of median income.

This change in the existing requirements will restore rationality and simplicity to the income targeting provision, without altering the original intent of the provision. By using the "percentage of units assisted" rather than the "percentage of funds" to determine compliance with the income targeting provision, PJs will no longer have the difficult task of tracking the HOME rental money, but can more easily track the HOME units assisted.

**5. Monitoring Requirements:** Replace the current requirement for an annual on-site review of each rental project funded with HOME funds, with a requirement that PJs develop a monitoring plan for HOME rental projects meeting the following requirements: monitor HOME rental projects initially and thereafter every three years, performing an on-site comprehensive financial and management review, complemented by an annual desk review of tenant files and financial statements. In the case of HOME/Tax Credit projects, the credit allocating agency monitoring requirements would suffice. This provision would bring the HOME and the Low-Income Housing Tax Credit monitoring requirements into uniformity as well as ease the administrative burden and cost of annual on-site monitoring.

While we recognize the importance of thorough monitoring of the HOME program, we do not believe that such onerous requirements are necessary to insure appropriate management of the program. This provision allows for an initial monitoring the first year, in order to provide a base line, but then recognizes that subsequent annual on-site reviews are unnecessary and inefficient.

**6. CHDO Activities:** Permit CHDOs to undertake any eligible HOME activity within the CHDO set-aside funds. This would enable them to undertake housing rehab. and administer tenant assistance programs in addition to housing development.

**\*7. Recapture of Funds Used for Homeownership:** Modify the requirement that funds used for homeownership, which are recaptured by the PJ, must be used only for homeownership, and allow for use for any HOME-eligible activity. This will increase the program's flexibility.

**\*8. Change in Requirements on Low-Income Homebuyer:** Delete the current statutory requirement that all low-income homebuyers must be "first-time homebuyers." Even though the current HOME definition of "first-time homebuyer" was considered broad, the exceptions established as a result of the Housing and Community Development Act of 1992 and regulations (24 CFR 92) created a



complicated and difficult method of determining eligibility. HUD concluded that the complexity of the "first-time" requirement had rendered it ineffective and should therefore be deleted.

**9. Use of HOME Funds as a Short Term Construction Guarantee:** Amend the statute to permit HOME funds to be used for construction loan guarantees for single and multifamily housing. Using HOME funds to guarantee private construction loans will leverage additional construction activity without actually spending the funds.

**10. Long Term Loan Guarantee Program Within HOME:** Amend the statute to authorize a long term loan guarantee program under HOME comparable to the Section 108 loan guarantee program under CDBG in order to allow Participating Jurisdictions (PJs) to undertake large scale rental projects.

**11. Use of HOME Funds for Program Administration:** Clarify that the 10 percent of a PJs allocation which can be used for program administration applies to the funds until they are expended. This is a technical change which would conform the statute to what is current practice.

**\*12. Threshold for Local Participation:** Modify the statute by eliminating the provision which reduces the threshold to \$335,000 for direct local funding whenever the HOME appropriation falls below \$1.5 billion and return the threshold to \$500,000, while holding harmless those participating jurisdictions which qualified for HOME funds under the current threshold requirements in order to establish some consistency and continuity to the HOME program. (Current statute provides a threshold of \$500,000 for direct local funding for HOME except for when the HOME appropriation falls below \$1.5 billion, then the threshold drops to \$335,000.)

**\*13. Environmental Review by States:** Modify the statute to allow States to delegate the performance of environmental reviews to localities (state recipients). Under CDBG and the former Rental Rehabilitation program, States may delegate responsibility for environmental reviews to the local level. This reflects the fact that localities are often the best equipped to review projects in their jurisdictions.

**\*14. State Administration of HOME:** Expand the definition of "State" under HOME to include "or instrumentalities thereof". HUD regional offices have precluded two state housing finance agencies (HFAs) from acting directly as the State under HOME, on the basis that their enabling legislation established them as separate instrumentalities from the State.

**\*15. Deletion of Outside HUD Audit of HOME:** Eliminate the current provision under Title II which requires HUD to contract with an outside auditor for an annual financial review of the HOME program. All federal programs, in accordance with

federal law, are required to conduct an outside audit, therefore making this requirement both duplicative and unnecessary.

### **Regulatory Changes to the HOME Program:**

1. **HOME Activity Delivery Costs:** Conform the treatment of activity delivery costs under the HOME program to that under the CDBG program, i.e., allow them to be charged to the eligible activity with which they are associated. In addition, include the cost of monitoring project compliance as an eligible delivery cost.
2. **Definition of HOME Project:** Permit Participating Jurisdictions (PJs) the flexibility to define what constitutes a HOME project rather than limiting a project to site(s) or building(s) within a four block area.
3. **Use of HOME Funds for Initial Project Operating Reserves:** Remove the restriction in the regulations which limits funding for a projects operating deficit reserve during rent-up to 18 months. Instead of an arbitrary time limit, PJs should be required to maintain evidence of an agreement with the mortgage lender that funding for such a reserve, once no longer needed, will be returned for use in HOME-eligible activities. This would facilitate use of HOME funds in risk-sharing arrangements by PJs. Not only should this be permitted for new construction and sub rehab projects, but for mod rehab projects as well.
4. **Increase in FHA Mortgage Insurance Limits:** Immediately publish the 20 percent increase in the 221(d)(3) multifamily mortgage insurance limits (which establishes the maximum HOME subsidy limit) authorized by the 1992 amendments in order to allow use of the higher limits for HOME-assisted rental housing. This increase is critical to making projects feasible in high cost areas.
5. **Equity Investments for Project Financial Work-outs:** Clarify that equity investments made as part of the financial work-out of an existing low-income housing project are an eligible use of HOME funds. The current regulations require the property to be acquired, rehabed, or constructed in order for HOME funds to be used. This is an unnecessary requirement and may undermine use of HOME funds to preserve affordable housing where it is appropriate.
6. **C/MIS System Projects:** Permit PJs to establish as projects with the Cash and Management Information System (C/MIS) homeownership, including rehabilitation, programs rather than a separate project for each household assisted.
7. **Pre-environmental Clearance Cost** - Make pre-environmental clearance activity costs reimbursable activity delivery costs in order to permit PJs to undertake them. Under current HUD interpretation, costs associated with pre-environmental clearance (NEPA) activities may not be reimbursable for specific projects. Only costs associated

with post-NEPA clearance would be reimbursable. Therefore such costs as appraisals, environmental (lead/asbestos) inspections, energy calculations, architects, civil engineers, outside consultants to do market studies cannot be charged to the project, if the NEPA clearance has not been approved. PJs, developers and nonprofits depend on these activities to move forward on projects; however, if such expenses are not reimbursable, then prospective projects will not be pursued.

**8. Additional Forms of Matching Contributions:** Clarify that the difference between acquisition cost and the appraised value of land or other real property, acquired with or without federal resources, is eligible match. The regulations currently allow such a differential to count in the case of properties acquired from RTC for affordable housing. Also consider owner contributions as match, in terms of land, owner investment or private debt.

**9. Projects out of Compliance:** Clarify that, in the event that a project which a PJ funds falls out of compliance with the requirements of HOME, the jurisdiction shall first seek to return the project to compliance, then if necessary make reasonable efforts to see that the project developer repays the HOME subsidy; but in the event that the developer/owner cannot repay the subsidy, permit HUD to reduce future grants but not require the jurisdiction to repay such subsidy to its HOME trust fund or to HUD.

**10. Housing Quality Standards and HOME-Assisted Housing:** Exempt housing units receiving \$5,000 or less in HOME funds for weathenzation, emergency assistance, home repair, or accessibility from Section 8 Housing Quality Standards. This would permit PJs to address emergency or life threatening problems, or prevent further deterioration of a unit.

**11. Environmental Review:** Provide an exemption from the requirements for rehab or one to four units and all owner-occupied rental and homeownership projects and provide flexibility by permitting one environmental review for projects receiving both HOME and CDBG funds. Where the HOME program determines a project to be rehab for environmental review purposes, allow that determination to supersede that of HUD's environmental review staff.

**12. CHDO Operating Funds:** Clarify that, at the discretion of the PJ, the up to 5 percent of its allocation which may be made available for CHDO operating assistance may be taken from within or outside the CHDO set-aside.

**13. Drawdown of HOME Funds:** Increase from 15 to 30 days the time frame within which funds drawn down must be spent. The 15-day time limit is particularly burdensome for urban counties and consortia which deal with multiple subrecipients.

**14. Definition of Net Proceeds for Homeownership:** Clarify that the definition of net proceeds includes improvements made to the property by the owner.

15. **Spending HOME Funds:** Clarify that PJs may commit FY93 HOME funds prior to having fully committed FY92 funds in order to permit them to take advantage of opportunities such as the acquisition of land for affordable housing. Also eliminate the provision that program income must be spent before further funds are drawn down for the same reasoning.

16. **Recognition of Match:** Allow PJs to begin accruing match for HOME eligible activities as soon as they have signed their FY93/FY94 HOME agreements, rather than waiting until they begin drawing down their FY93/FY94 funds.

17. **C/MI System For Tenant Assistance:** Eliminate the requirement that specific information (social security number, amount of tenant contribution, amount of subsidy) be provided up front on each tenant to be assisted with HOME funds, requiring instead that such information be contained in the completion report. PJs should be required to indicate up front the number of tenants expected to be assisted and the total amount of subsidy expected to be provided.

18. **C/MI System and CHDOs:** Allow CHDO projects to be set-up in the C/MIS (therefore show them as a commitment) prior to complete CHDO identification of all financial sources and/or completion of approval/filing as a CHDO. This would enable PJs to commit their CHDO monies faster rather than waiting for the lengthy CHDO approval process.

19. **Limitation on Use of HOME With FHA Mortgage Insurance:** Remove the requirement that the HOME affordability period corresponds to the term of an FHA insured mortgage when HOME funds are used in connection with housing financed with a mortgage insured by HUD. HOME affordability requirements should prevail.

20. **Property Value Limits:** Allow local jurisdictions to base property value limits on the area median income as provided in the statute.

21. **Definition of Affordable for Subsequent Low-Income Borrower:** Eliminate the regulatory requirement that first-time homeownership units be made affordable to the subsequent low-income buyer at a price that is 30% of 75% of median income. The statute requires that the unit be affordable but does not specify the actual amount. PJs should be given the option to define what is affordable to another low-income purchaser.

22. **Definition of SRO under HOME:** Conform HOME's definition of Single Room Occupancy (SRO) projects to that used in other federal programs such as the McKinney Homeless and Shelter Plus Care programs, thus allowing HOME to be used in combination with these programs.



**QUESTIONS OF REPRESENTATIVE MICHAEL N. CASTLE  
FOR THE HONORABLE WILLIAM E. HANNA, JR.**

Community Development Block Grant (CDBG) Program

Rep. Castle: The HUD Inspector General has reported that some communities receiving CDBG grants are not funding projects that truly benefit low and moderate income persons. Do you have any comments on this issue? Specifically, do you think it is a problem and how can we ensure that these funds go for true community development projects and are just not used as some nice extra money for cities and local governments to use?

Mr. Hanna: The data clearly indicates that jurisdictions are targeting CDBG funds in a manner consistent with Congressional intent. In the 1993 Annual Report to Congress, HUD reported that more than 90 percent of CDBG funds expended in 1990 went for activities benefiting low- and moderate-income persons. The strength of CDBG is that jurisdictions, within the context of broad national objectives, have considerable discretion to decide how funds are spent. Local priorities for funding are established in consultation with affected parties and respond to identifiable community development needs. I feel it is inappropriate for the Inspector General to second guess community development needs and revitalization plans, particularly when outsiders' impressions are based on scant information that does not take into account the public record out of which priorities are based.

Rep. Castle: What is your view of the HUD application and decision process for CDBG grants? How can it be improved? Should HUD combine the CDBG and HOME application process?

Mr. Hanna: The HUD application and decision process are satisfactory. I support HUD's efforts to institute consolidated planning and establish a single program year. However, CDBG and HOME should remain separate programs that are complementary in nature.

Rep. Castle: Another criticism of the CDBG program is that it is very slow in allocating funds. In 1993 there was a \$3 billion backlog in unspent and unallocated funds. How can this problem be solved?

Mr. Hanna: I do not view this as a problem. A grantee may have 1.5 its grant amount in its line of credit 60 days prior to the start of the next program year. Grantees should not be expected to expend funds any quicker than they now do, because CDBG is an infrastructure program that funds projects that often take multiple years to complete. The CDBG spend-out rate should not be judged by a different

standard from that used in evaluating other infrastructure projects, like transportation, that are multiple year undertakings.

Rep. Castle: Do you have any views on the CDBG allocation formula? Is it fair or should it be changed and in what manner?

Mr. Hanna: I strongly believe the current CDBG allocation should be retained. The formula recognizes that poverty exists in relatively affluent areas, and consequently these jurisdictions should qualify for funding. The current formula measures need among jurisdictions and funds are directed towards that need.

Rep. Castle: Secretary Cisneros has proposed a LIFT program (Neighborhood Leveraged Investments for Tomorrow). This program would use \$200 million of CDBG funds for a competitive grant program to provide subsidies to leverage private investment in distressed neighborhoods. Is this type of program better left to state and local governments? How do you view the LIFT proposal?

Mr. Hanna: I will be in a better position to comment on LIFT after HUD releases the details on this proposal. As you probably know, county and other governmental officials were alarmed when the president's fiscal 1995 budget proposal that \$200 million of CDBG funds be set-aside for LIFT. We opposed that funding source because it would have reduced CDBG allocations to jurisdictions. We are pleased that HUD will seek a different funding source for LIFT.

#### HOME Investment Partnerships Program

Rep. Castle: Do you support the proposal to make the matching requirement for HOME funds a flat 25 percent for state and local recipients?

Mr. Hanna: Yes. NACo consistently has opposed a tiered nonfederal match.

Rep. Castle: What types of programs have you used HOME funding for?

Mr. Hanna: In Montgomery County, Maryland, we are using HOME funds to support a number of different housing activities. The Montgomery Housing Partnership, a qualified Community Housing Development Organization, is receiving funding to oversee the rehabilitation and conversion of an old motel in Rockville into 80 plus units of one and two bedroom rental units. The targeted population is 50 - 60 percent of median. Our County Housing Opportunities Commission has under construction, using HOME funds, a rental townhouse development, with 15 units set-aside for households at or below 30 percent of median income.

Rep. Castle: Other than an increase in funding, how can the HOME program be improved to make it more responsive to state and local needs.

Mr. Hanna: In response I refer you to the NACo resolution that recommends the following refinements to HOME:

**Legislative Recommendations:**

1. **Matching requirements**--replace the current two-tiered match of 30 percent for new construction and 25 percent for all other activities with a uniform 25 percent match. Modify the automatic match waiver by eliminating the phased reduction of either 50 percent or 100 percent. Communities should qualify for a 100 percent waiver if they meet either of two distress criteria: poverty or per capita income. States and localities that are experiencing cyclical distress (for example, a lag in tax receipts) also should qualify for a 100 percent match waiver;
2. **Rent calculations**--replace the existing requirement that eligible rental housing bear rents no greater than the lesser of existing Fair Market Rent or an amount not exceeding 30 percent of the adjusted income for a family whose income equals 65 percent of area median, with a requirement that a rent not greater than the Fair Market Rent may be charged;
3. **Targeting requirements for rental housing**--delete the present requirement that a HOME-assisted project must have at least 20 percent of the units set aside for those at 50 percent of median income or less; replace the current program-wide targeting of 100 percent of the funds at 80 percent of median or less, and 90 percent of the funds at 60 percent of median or less, with a requirement that 100 percent of the funds be spent on activities which benefit those at 80 percent of median income or less. This change would conform the rental housing targeting to that which applies to ownership housing. Deeper targeting would prevail when HOME is used in conjunction with another program with deeper targeting requirements;
4. **Monitoring requirements**--rather than an annual on-site review of each project, require that participating jurisdictions prepare, subject to HUD approval, a monitoring plan which enables them to assure compliance with the program's occupancy restrictions;
5. **Community Housing Development Organizations (CHDOs)**--modify the current definition of CHDOs by eliminating the neighborhood representation requirement and making it consistent with other federal programs such as the Low-Income Housing Tax Credit;
6. **CHDO activities**--permit CHDOs to undertake any eligible HOME activity within the CHDO set-aside funds;

7. **Recapture of funds used for home ownership**--modify the requirement that funds used for home ownership which are recaptured must be used only for home ownership, allowing them instead to be used for any HOME-eligible activity;

8. **Construction Guarantees and Bridge Financing**--amend the statute to permit HOME funds to be used for loan guarantees for single and multifamily housing and bridge financing for tax credit projects;

9. **Long term loan guarantee program within HOME**- - amend the statute to authorize a long term loan guarantee program under HOME comparable to the Section 108 loan guarantee program under Community Development Block Grants in order to allow participating jurisdictions to undertake rental projects;

10. **Use of HOME funds for program administration**--clarify that the 10 percent of a participating jurisdiction's allocation which can be used for program administration applies to the funds until they are expended;

11. **Compliance with targeting requirements**--replace the current law requirement that income targeting be accounted for by funds expended, with a requirement that funds be accounted for by units assisted;

12. **Use of HOME for loan guarantees**--specifically allow compensating balance as a form of loan guarantee in the HOME program;

13. **Amend the HOME program**--to authorize newly formed or expanded consortia to receive funding for their non-entitled share from the state rather than the local share;

14. **Mixed use projects**--amend the HOME program to eliminate the requirement that mixed use projects be at least 51 percent residential use;

15. **Davis-Bacon**--conform the HOME program to the Community Development Block Grant program by exempting housing that is constructed with non-HOME funds from the Davis-Bacon prevailing wage requirements when HOME funds only are used for land acquisition, and

16. **CHDO** - modify the CHDO requirements to permit a carryover credit for funding provided in excess of the required 15 percent set aside in any year.

#### Regulatory Refinements:

1. **Home activity delivery costs**--conform the treatment of activity delivery costs under the HOME program to that under the CDBG program, i.e., allow them to be



charged to the eligible activity with which they are associated and include the cost of monitoring project compliance as an eligible delivery cost;

2. **Definition of HOME project**--permit participating jurisdictions the flexibility to define what constitutes a HOME project rather than limiting a project to site(s) or building(s) within a four block area;

3. **Use of HOME funds for initial project operating reserves**--remove the restriction in the regulations which limit funding for a project's operating deficit reserve during rent-up to 18 months;

4. **Equity investments for project financial work-outs** -- clarify that equity investments made as part of the financial work-out of an existing low-income housing project are an eligible use of HOME funds;

5. **Cash and Management Information System (C/MI) projects**--permit participating jurisdictions to establish as projects within the C/MI system home ownership and rental assistance programs rather than a separate project for each household assisted.

6. **Pre-environmental clearance cost**--make pre-environmental clearance activity costs (appraisal, lead asbestos inspections, energy calculations, consultants) reimbursable activity delivery costs in order to permit participating jurisdictions to undertake them;

7. **Additional forms of matching contributions**--clarify that the difference between acquisition cost and the appraised value of land or other real property, acquired with or without federal resources, is eligible match. The regulations currently allow such a differential to count in the case of properties acquired from the Resolution Trust Corporation for affordable housing;

8. **Projects out of compliance**--clarify that, in the event that a project which a participating jurisdiction funds falls out of compliance with the requirements of HOME, the jurisdiction shall first seek to return the project to compliance, then if necessary, make reasonable efforts to see that the project developer repays the HOME subsidy; but in the event that the developer owner cannot repay the subsidy, permit HUD to reduce future grants, but not require the jurisdiction to repay such subsidy to its HOME trust fund or to HUD;

9. **Housing quality standards and HOME assisted housing** -- exempt housing units receiving \$5,000 or less in HOME funds for weatherization, emergency assistance, home repair, or accessibility from Section 8 housing quality standards;

10. **Environmental review**--provide an exemption from the requirements for rehabilitation of one to four units and all owner-occupied rental and home

ownership projects and provide flexibility by permitting one environmental review for projects receiving both HOME and CDBG funds;

11. **CHDO operating funds**--clarify that, at the discretion of the participating jurisdiction, up to 5 percent of its allocation which may be made available for CHDO operating assistance may be taken from within or outside the CHDO set-aside;

12. **Drawdown of HOME funds**--increase from 15 to 30 days the time frame within which funds drawn down must be spent;

13. **Definition of net proceeds for home ownership**--clarify that the definition of net proceeds includes improvements made to the property by the owner;

14. **Spending HOME funds**--clarify that participating jurisdictions may commit current year HOME funds prior to having fully committed prior year funds in order to permit them to take advantage of opportunities such as the acquisition of land for affordable housing;

15. **C/MI system for tenant assistance**--eliminate the requirement that specific information (social security number, amount of tenant contribution, amount of subsidy) be provided up front on each tenant to be assisted with HOME funds, requiring instead that such information be contained in the completion report;

16. **Affordability period**--remove the requirement that the affordability period correspond to the 30-year term of the FHA mortgage insurance commitment placed on the unit. Instead, the HOME affordability requirements should prevail;

17. **Single Room Occupancy (SRO) projects**--conform HOME's definition of SRO projects to that used in other federal programs such as the McKinney Homeless programs, to permit HOME to be used in combination with these programs;

18. **Davis Bacon**--eliminate the Davis-Bacon requirements for HOME projects of 12 or fewer units that are intended to be sold to individuals as separate units;

19. **Site and Neighborhood Standards**--eliminate the requirement that HOME funded new construction projects comply with Section 8 site and neighborhood standards.

(MR. HENSON)

(contains responses to Cong. Castle--  
page 13)

April 18, 1994

The Honorable Henry B. Gonzalez  
Chairman  
House Committee on Banking and Urban Affairs  
B-303 Rayburn House Office Building  
Washington, D.C. 20515

Dear Mr. Chairman:

First let me thank you again for the opportunity to appear before your Subcommittee to testify on behalf of the National Community Development Association (NCDA) and the National Association of Housing and Redevelopment Officials (NAHRO) on March 16 concerning the reauthorization of the Community Development Block Grant Program (CDBG), Home Investment Partnership (HOME) Program and other key federal housing and community development programs.

I am writing in response to the questions that were raised during the hearing regarding the use of the Community Development Block Grant Program (CDBG) for economic development activities, the Section 108 Loan Guarantee program and the HOME program.

**1) and 2) What are your suggestions as how to promote the amount of economic development activities conducted by CDBG recipients? In your estimation, what hinders communities from conducting economic development activities?**

There is a certain inherent bias against economic development in the regulations as well as in the legislation. From information obtained from members, it appears that the majority of the Economic Development activity conducted with CDBG money is at the market demand of the business community pushing a City or State into an Economic Development project as opposed to the outreach effort by the Cities or the States to provide CDBG money for economic development.

The three major regulatory issues for Economic Development projects with CDBG are, eligibility, national objectives and "appropriate" underwriting.

### **Eligibility:**

We believe that there are no major structural problems with eligibility. In fact, Economic Development activity is probably under reported since HUD requires some activities to be categorized elsewhere. For example, you will find utility extensions under "Public Facilities", work training programs and transportation programs under "Public Service". Therefore, to remove one barrier to Economic Development would be to remove the Public Service cap for those projects that qualify as Economic Development related, such as day-care in industrial parks, employer-sponsored car pools for transportation, and most importantly, work training programs. A final point under "Eligibility" is the need for regulatory relief regarding technical assistance and certain administrative costs directly related to Economic Development.

Despite recent changes, more effort is needed in this arena as numerous experiences around the country indicate. Small businesses' most effective financial assistance should be accompanied by appropriate technical assistance, otherwise the loans or other assistance is not useful and the national objectives frequently under achieved.

### **National Objectives:**

Economic Development is best accomplished under the "Slums and Blight" category of eligibility. This is an "up-front" satisfaction of regulatory requirements. Potential employers (CDBG loan recipients) are fearful of the on-going loan default downside of failure to meet job creation projections. However, many communities reach their 30% limit on "Slums & Blight". The 30% limitation should be waived for Economic Development projects.

CDBG is more difficult to use for job RETENTION than for job CREATION. This is due to qualifying household income that must include the current income of the job loss candidate. The regulations provide more benefit to a worker unemployed for one day, after his/her employer has left the City or gone under. Sadly, an employer can be assisted with CDBG easier if he/she fires all employees - rather than retain them - and create or rehire new ones!

Current HUD memos on appropriateness are mystifying and unclear, especially regarding the issue of what's regulation, what's legislation, and what's "safe harbor". The "Safe Harbor" memo guidance overlaps between national objectives, eligibility and "appropriateness".



Most Economic Development is done under new job creation for low/moderate income persons. Although "best faith efforts" to hire low/moderate persons is permitted in regulations, vis-a-vis actual creation of low/moderate jobs, the small business reporting is so burdensome that frequently business will not agree to a well-drawn loan document that incorporates federal regulations. A recent legislative change, allowing the definition of low income person to include those residing in enterprise zones or low/moderate income neighborhoods provides some relief. However, the best relief would have been exempting the business that locates in the enterprise zone and/or low/moderate income neighborhood in entirety. By virtue of its location, it should be exempt from other national objectives, such as jobs or service to low/moderate income persons.

### **Appropriate Underwriting:**

- >> Small businesses and small loans are not exempt from the appropriateness tests.
- >> For larger businesses and loans, the "appropriateness" test requires clarification on the rate of return issue, which both confuses and deters large investors willing to invest in low income neighborhoods.
- >> The "Appropriate" underwriting requirement is too cautious on the issue of cost reasonableness, but too lax on conflict of interest created by "identify of interest" relationships (e.g., overlapping ownership in buyer and seller of real estate equipment and services).

The "inconsistent interpretation of rules by HUD's headquarters and field offices" and the "gotcha" mentality of HUD staff are complaints frequently cited by our members to explain their lack of participation in CDBG funded economic development activities. Both of these charges are supported by the recently released General Accounting Office (GAO) report on utilizing CDBG for economic development activities.

The GAO report further identifies the requirement of the Davis-Bacon Act, a law that determines wage rates for federally assisted construction projects as a disincentive to use CDBG as an economic development tool as it drives up the cost of projects to where they become prohibitive for many communities. Additionally, Davis-Bacon discourages the use of minority and women owned businesses because of the increased administrative expense associated with completing a project.

In an effort to help decrease the cost of many smaller construction and rehabilitation projects in communities across the nation, NCDA recommends that Congress approve the provision contained in the "Davis Bacon Act", (H.R. 1231)

pending in the House that is designed to increase the federal contract dollar threshold for triggering the Davis-Bacon Act from \$2,500 to \$100,000. NAHRO recommends both a raising of the dollar threshold and inclusion of a percentage threshold so that there is one-fourth or one-third federal funding in a project before Davis-Bacon is triggered. This is reflected in H.R. 2042.

NCDA and NAHRO both support conforming the CDBG and HOME program requirements regarding the number of housing units necessary to activate Davis-Bacon, from 8 units (CDBG) to 12 units (HOME).

With the draft guidelines for economic development, mandated by the Housing and Community Development Act of 1992, HUD has responded to many of the concerns expressed by NCDA, NAHRO and other organizations by providing increased flexibility within the CDBG program for economic development. Once adopted, we believe these regulations will make it more feasible for grantees to undertake economic development projects and activities with CDBG funds, which will lead to an expansion of economic opportunity for low and moderate income persons as well as greater economic self sufficiency.

Additionally, CDBG program funding levels for communities is not sufficient to meet all the community's needs. Grantees must prioritize eligible activities based upon local conditions and available resources to meet those needs. The total amount of CDBG funding for entitlement communities has only risen by \$12.5 million from \$2.219 billion in 1975 to \$2.344 billion in 1992, while the number of entitlement communities has jumped from 594 in 1975 to 889 in 1992.

It is important to note that to obtain a true picture of the level of economic development activity at the local level, do not look solely at CDBG. Communities are also utilizing Economic Development Administration (EDA) programs and local revenue. Increased effort needs to be made between HUD and EDA as well as other federal agencies to assure that these very different economic development programs can be used in a complementary fashion.

**1b) Will the UDAG recaptures, which may provide the Department with \$100 million in extra funding, used in conjunction with the Section 108 Loan Guarantee program, reduce communities reluctance to engage in economic development activities with the Program?**

Both NCDA and NAHRO support the administration's proposal to expand the Section 108 Loan Guarantee program by using recaptured UDAG funds for communities to finance a portion of qualifying economic revitalization activities. However, it is unclear if the \$100 million HUD anticipated recapturing from UDAG projects to be utilized to write down interest rates or to assist grantees to set up a loan loss reserve, will be enough to encourage the expanded use of the

program.

NAHRO also supports the Amnesty proposal contained in the housing bill recently adopted by the House and Senate and signed by the President. This provision recognizes that many communities that have outstanding UDAG funds still have distressed conditions and should be given an opportunity to design new programs with flexible regulations before the funds are recaptured and offered to others.

The Section 108 Loan Guarantee Program provides communities with a source of financing for housing rehabilitation, economic development and large scale physical development projects. The principal security for the loan guarantee is a pledge by the applicant of its current and future CDBG funds.

Economic Development activities carried out with the proceeds from loans guaranteed under the Section 108 Loan Guarantee program must meet the same requirements that apply to the use of other CDBG funds. Accordingly, before using guaranteed loan funds to assist a for-profit business, the grantee must make the determinations outlined in this memorandum. In addition, the grantee must include in its application for loan guarantee assistance a narrative statement explaining how the proposed activity meets a national objective of the CDBG program.

Unlike activities assisted with other CDBG funds, HUD will perform an "up front" review of compliance with the CDBG program's eligibility and national objectives requirements. HUD central staff appear to understand the project and work with applicant's also, however field and regional staff are often ill-equipped to review the underwriting of such 108 Loan Guarantees.

There are several reasons why communities do not participate in the Section 108 Loan Guarantee Program, fear of "mortgaging" their future CDBG funds and lack of organizational capacity to package the Section 108 deals, as well as the previously mentioned regulatory limitations of the CDBG program for economic development.

In an effort to increase awareness of the Section 108 Loan Guarantee Program, HUD has developed a two-day training session to be made available in all ten HUD regions. This effort is designed to explain the program and encourage grantees to utilize the program as an economic development tool.

### **3) How do you feel about increasing the public services cap in the CDBG program?**

Currently, public services under CDBG are limited to 15% of a community's annual grant plus program income. Public services include, but are not limited to:

public safety programs, child care, job training, services for the elderly and handicapped, crime prevention and recreational services. NCDA policy supports a small expansion of CDBG public services from the current 15% to 20%.

This policy is consistent with both the United States Conference of Mayors (USCM) and the National League of Cities (NLC). This slight increase will enable communities to integrate their physical development activities with a measure of social services support. While NAHRO supports the integration of physical development with social services support, NAHRO has taken a position opposing the increase in the public service cap because of a fear that it will lead to a reduction in funding for other programs for similar activities. Increasingly, CDBG is being viewed by federal officials as the answer to all problems, from crime to safety to economic development, literacy and welfare reform; and yet the funding level of the program has not increased commensurately. NAHRO foresees a similar situation can be anticipated with the increased focus on CDBG for economic development. We believe that this new HUD emphasis is leading to less federal and Congressional support for the EDA and other programs, which will further squeeze the resources available to the local government. If we really want to combat poverty, we need to restore funding for programs like CSBG, JTPA, health care, and other human services programs.

NAHRO believes it is misguided to think that a relatively small program like CDBG is the appropriate vehicle to deal with the massive causes of poverty -- lack of adequately funded nutrition, health, education, job training and employment opportunity programs -- all of which have been significantly cut over the last 10 years.

NAHRO wants to see the problems of poverty addressed in our nation. But the proposal to make CDBG an anti-poverty program simply ignores the origins and intent of the program as a tool provided to local governments allowing flexibility to address a wide variety of **locally-defined** needs for neighborhood stabilization, economic development and to combat physical deterioration in our communities while also providing a limited level of human services support.

**4) In your testimony you recommended that HOME funds be used as a credit enhancement for conventional loans and that HOME funds be used for housing as CDBG funds are used under the Section 108 loan guarantee program. Can you elaborate on these two ideas?**

NCDA and NAHRO, as well as several other national organizations representing state and local elected and appointed officials have recommended that HOME funds be used as short term and long term guarantees. Below are expanded explanations for each of these ideas.



### 1) Use of HOME Funds as a Short Term Credit Enhancement

The statute is silent on whether HOME funds can be used as a credit enhancement to leverage financing from private lending institutions. To date, HUD has taken the position that this is not a permissible use of HOME funds. We recommend that the statute be amended to explicitly authorize Participating Jurisdictions (PJs) to use HOME funds to provide a guarantee or insurance for all or a portion of such non-federal financing for a limited period of time to support HOME-assisted single and multifamily affordable housing.

Under this proposal, a PJ could guarantee all or some portion of a loan made by a lender for a HOME-assisted single or multi-family project. The guarantee could be for a short term, to be determined by the PJ and lender, and could cover the undue risk of construction (rehabilitation) in the case of single family housing or construction (rehabilitation), rent-up and a year or two of occupancy for multifamily rental housing. The guarantee would constitute a pledge of some or all of the PJs current year allocation. The amount of the guarantee could decline over the term of the loan. The PJ would not draw down the funds for the guarantee, but it would reserve the amount in its HOME Investment Trust Fund. Only in the event of a default would the funds be drawn down. Fannie Mae and Freddie Mac could be encouraged to buy these permanent loans.

### 2) Long Term Guarantee Program Within HOME

There is a need for Participating Jurisdictions (PJs) to be able to leverage future year allocations of HOME funds in order to significantly expand the number of units which can be financed in any year. This proposal is modeled after the Section 108 loan guarantee program in CDBG. The program could work in two ways:

- a) PJs could provide guarantees for loans on HOME-assisted single family and multifamily housing. This loan guarantee would be sufficiently flexible to cover construction and permanent financing, homeownership and rental housing, taxable and tax-exempt financing, partial and full coverage against losses, and short- and long-term guarantees. The guarantees would be backed by the Jurisdiction's future HOME allocations. Jurisdictions could provide guarantees in an aggregate amount up to five times their annual allocation. No HOME funds would be drawn down unless the loan goes into default. Fannie Mae and Freddie Mac could be encouraged to buy permanent loans guaranteed under this authority. This option would require federal loan guarantee authority.

Under this option a PJ would issue a loan guarantee to a project lender. The guarantee would be backed by a stand-by loan agreement between the PJ and

HUD. Under the agreement, HUD would cover any claims on the guarantee by issuing notes on behalf of the PJ that would be repaid, with interest, from the Jurisdiction's future HOME allocations. This could be done over a period of time up to thirty years. However, no funds would be drawn down unless the loan goes into default. If a call is made on the stand-by loan agreement, the repayments to HUD would be subject to HOME's matching requirements. In addition, fulfillment of a guarantee obligation would not be treated as a refinancing, nor would it be subject to the prohibition against investing HOME funds in a project prior to the termination of the use restrictions.

- b) PJs could borrow against their future HOME allocations to provide an up-front capital subsidy (equity contribution) to reduce the rents on a multi-family project to make them affordable. Under this approach HUD would guarantee notes issued by a PJ which would be repaid in annual increments from the Jurisdiction's future HOME allocations. Used in this fashion a sufficient amount of HOME funds could be aggregated to undertake either large-scale projects or engage in substantial production of units. This option would require federal guarantee authority.

**5) Many of your examples of HOME fund usage are single family programs. Will communities put HOME funds to acquire properties under a reformed multifamily property disposition program?**

With the passage of the "Multifamily Housing Property Disposition Reform Act of 1994", which included legislative provisions, such as the changes to the match requirement for new construction and the simplification of the income targeting; the improvements included in the Fifth Interim Rule, such as the modifications in match eligibility, allowance for floating units, and the relaxation of rental housing monitoring; and, the permanent extension of the low income housing tax credit. We believe that communities nationwide will continue to use a substantial amount of HOME funds for multifamily housing and rental housing and may increase the level of activity to some extent.

Currently, consistent with the primary intent of the HOME program, a majority of the funds are already used for rental housing projects - 60.4%, according to the latest HUD figures for FY92 HOME funds. In addition, PJs are showing a commitment rate of 20.5 % for new construction activities, a substantial increase from earlier statistics. These figures, together with the figure that shows that only 3.0% of the funds are going to tenant-based rental assistance, indicates that the HOME program is providing sufficient funding in the construction or rehabilitation of rental projects so as not to require additional subsidies. This is an especially important fact given that 88.5 % of the rental units are going to tenants at or below 50% of median income.

With the recent legislative and regulatory changes to the HOME program and the low income tax credit program, some communities may increase the level of multifamily housing activity, new construction and property acquisition, particularly since larger projects, HOME funded or otherwise, often require the use of low-income tax credits as well, to make them work. However, there is not likely to be a substantial increase in multifamily activities since communities are already using a majority of their HOME funds for such projects. In addition, communities continue to need increased funding for multifamily, large scale construction or rehabilitation projects. It is also important to remember that one of the best features of the HOME program is it's flexibility to serve the housing needs of a particular community, be those needs for rental property or first-time homebuyer assistance.

NCDA and NAHRO members have expressed interest in using the HOME program along with other programs to acquire properties under the reformed multifamily property disposition program. But problems have been identified in the site and neighborhood standards, which restrict use of HOME and other federal dollars in "impacted areas", because this restriction limits the government's ability to use HOME and other programs to invest in distressed areas through the property disposition program and other similar efforts. These problems aside, some communities are already acquiring HUD properties and are anxious to do more under the reformed multifamily property disposition program. In fact, NCDA has been working with Assistant Secretary Nicolas Retsinas and his staff to help make all of FHA's programs more accessible and desirable to local governments.

**6. Can you comment on CHDO activities. Are PJ's still having difficulties in identifying CHDO's?**

The activities of the Community Housing Development Organizations (CHDOs) under the HOME program got off to a slow start, due partially to the longer development time of a CHDO owned or managed project and the capacity building required for new and existing CHDOs. However, the activity level has picked-up substantially and according to HUD, 16 percent of the FY92 funds allocated for HOME are currently reserved for CHDOs, and 18 percent of the total have actually been committed to CHDO projects.

These figures exceed the 15 percent for CHDO's required by law and a break down of the numbers below show that in certain HOME activity areas CHDOs are being used well beyond the required amount. For example:

The amount of HOME funds Committed to CHDOs for  
Rental Activities is :

25 Percent

The amount of HOME funds Committed to CHDOs for First-Time Homebuyer Programs is:	27 Percent
The amount of HOME funds Committed to CHDOs for New Construction is:	25 Percent
The amount of HOME funds Committed to CHDOs for Rehab. is:	17 Percent

NCDA and NAHRO have noted an ongoing problem in several parts of the country with identifying CHDOs capable of operating the HOME program and problems with capable nonprofit organizations having difficulty transforming themselves to meet the definition of CHDO required in the HOME program. CHDOs are more prevalent in the east and California, however communities in the south, southwest and west are having more difficulty identifying and training CHDOs. Due to the fact that CHDO development is a lengthy process, particularly in areas where there is no previous history of housing nonprofits, many PJs are only now beginning to allocate their CHDO funds. More CHDO training is still needed and we encourage Congress to continue to support this technical assistance and training activity.

Although the statistics denote that only 16 percent of HOME funds are being spent by CHDOs, it is somewhat misleading since most PJs are operating some or all of their HOME program through nonprofit organizations, which do not necessarily qualify as a CHDO. NCDA and NAHRO believe that if it were possible to identify the total dollar or unit amount going to nonprofits, who do not necessarily qualify as CHDOs, a significantly different story would be told about public-private partnerships under the HOME program.

#### **7. How often are HOME funds being used for tenant based rental assistance?**

According to HUD statistics, as of March 31, 1994 only 3 percent of the HOME funding is being used for tenant-based rental assistance. Many PJs made a policy decision not to use HOME funds for tenant-based rental assistance. Some indicated that the tenant-based rental assistance requirements were onerous, although HUD has made some attempts to improve the requirements. Others were concerned about the sustainability of rental subsidies after the two years, and did not want to design a program which depended upon on-going rent subsidies. Still others did not want to duplicate an already existing system, e.g. the Section 8 rental assistance program. Frequently, PJs are using their tenant-based rental assistance to provide short-term emergency assistance for prevention of homelessness. This meets a need not met through the Section 8 program or through the McKinney programs. Many PJs wanted to "leave rental assistance to



the Section 8 program and free-up HOME funds to do the greatly needed construction and rehabilitation work." This is once again an example of HOME flexibility in allowing those communities with rental assistance needs to use HOME for rent subsidies, while allowing other PJ's to use the program for different housing needs.

The low tenant-based rental assistance figures mean that the 60.4 percent that has been committed to rental projects has been able in the significant majority of cases to bring the cost of the project to a level so as not to require on-going assistance. This is an important aspect of the value of the program.

## **8. Examples of Regulatory "over-interpretation".**

Certainly with the passage of the "Multifamily Housing Property Disposition Reform Act of 1994" and the publication of the Fifth Interim rule, both of which reflect legislative and regulatory recommendations made last year by NCDA, NAHRO and the other national organizations representing local and state governments, the HOME program has become more manageable. We have included a list of possible regulatory changes and will be submitting, with several other national organizations some additional legislative recommendations for H.R. 3838. Further recommendations may be forth coming in the next week. Some of these regulatory recommendations identify those areas which may require reaffirmation of Congressional intent. They are so noted with an asterisk.

### Additional comments regarding the Recommended Change to the Threshold for Participation

As stated in the testimony of March 16, NCDA and NAHRO recommend that the HOME threshold for participating jurisdictions (PJs) be returned to \$500,000 with existing PJs held harmless. The HOME threshold was changed from \$500,000 to \$335,000 for direct local funding when the FY93 appropriation was reduced to \$1.0 billion (the FY92 appropriation was \$1.5 billion). With the lower threshold, more communities qualified for direct funding and more consortia came into the program. Accordingly, local jurisdictions which qualified at the \$500,000 threshold received less funding.

In FY94, although HOME funding was increased to \$1.275 billion, the threshold of \$335,000 remained in effect because the appropriation was below \$1.5 billion. Again, more communities and consortia qualified for direct funding and local jurisdictions which would qualify at the original \$500,000 threshold received less funding.

As more and more communities qualify for the limited amount of HOME funds, other local governments will receive drastic cuts in funding. If Congress

appropriates the Administration's FY95 budget request of \$1 billion for HOME, some cities may receive about half of what they received in FY92. A return to the original threshold of \$500,000 would slow down this process, at the same time, holding harmless those communities which have already qualified at the lower threshold. We urge you to reconsider this provision.

## RESPONSE TO REPRESENTATIVE MICHAEL N. CASTLE

**1) The HUD Inspector General has reported that some communities receiving CDBG grants are not funding projects that truly benefit low and moderate income persons. Do you think it is a problem and how can we ensure that these funds go for true community development projects and are not just used as some nice extra money for cities and local governments?**

We do not believe that the problem is wide-spread. Especially in economic development activities, it has been identified by GAO that the HUD Inspector General (IG) has been overzealous in their pursuit of local governments and with an auditor's hindsight is finding problems with recipients and results that the local government could not have anticipated in the planning of the project.

Additionally, the citizen participation guidelines help to ensure that local residents are able to weigh in on decisions regarding the funding of local projects. There is an existing requirement that 70% of CDBG programs funds benefit low and moderate income persons.

Our members tell us that increased targeting will eliminate the ability to do true community development and will distort many local CDBG programs toward more direct benefit activities like housing rehab, and make it virtually impossible to carry out such "area-wide" activities as public improvements, infrastructure projects, community centers, and commercial revitalization -- activities which contribute to reviving distressed areas while also stabilizing declining neighborhoods.

**2) What is your view on the HUD application and decision process for CDBG grants? How can it be improved? Should HUD combine the CDBG and HOME application process?**

Currently HUD is completing work on a Consolidated Plan and Submission Document which will pertain to the HOME and CDBG application process, the applications for the Emergency Shelter Grant (ESG) program and the Housing Opportunities for Persons With AIDS (HOPWA) program, as well as the Comprehensive Housing Affordability Strategy (CHAS) and the non-housing Community Development Plan. The Consolidated Plan and Submission is designed to replace the current Community Planning and Development (CPD) planning and application requirements with a single submission.

NCDA and NAHRO are both supportive of the development of a more efficient and streamlined submission and the ultimate reduction of paperwork redundancy and administration for local governments. However, we are still concerned with the

process in which HUD developed the Consolidated Plan and Submission and the increased level of work the "consolidation" may actually cause. We encourage Congress to look very carefully at HUD's proposed consolidation to assess the value of the proposal and the appropriateness of its timing. We are also concerned about the proposal to address homelessness and fair housing in this same document. A document meant to be everything to everyone usually turns out to serve no one well. If such a broad change is taken with the consolidated document than further development and consideration is critical.

**3) Another criticism of the CDBG program is that it is very slow in spending funds. In 1993 there was a \$3 billion backlog in unspent and unallocated funds. How can this problem be solved?**

Congress and the Administration need to remember that CDBG is intended as a community development program, which by its nature means that the funds generally will not be 100% spent within 12 months of appropriation. The process of identifying worthwhile projects, documenting their appropriateness and who the recipients will be all take time. Additionally the citizen participation process designed to set local priorities takes time as well.

A substantial amount of CDBG program dollars fund projects which require long-term construction. The program's spendout figures reflect the nature of these projects, which require substantial amounts of time to complete. In addition, the program only permits funds to be drawn down as work progresses. Thus there is, of necessity, a pipeline of funds awaiting expenditure for projects already underway. In any event, the CDBG program does not permit a grantee to have more than 1.5 times its annual allocation in the pipeline. This 1.5 requirement reflects the 18 months needed to complete an average project.

The funds currently in the pipeline cannot be accelerated because most of them have already been obligated by local communities for specific projects. Additionally, local and federal fiscal years are not necessarily synchronized. This means that localities frequently do not make funding decisions for the CDBG program until more than six months into federal fiscal year and do not receive their funds until the fourth quarter of the federal fiscal year. HUD has pledged to get CDBG funds to the local level before the start of the local program year, which thereby permitting better planning and utilization of the program at the local level.

In terms of outlays, the amount in the pipeline is quite small. For fiscal years 1990-1992, new outlays totalled approximately 93% of the appropriations for each of those years.

**4) Do you have any views on the CDBG allocation formula? Is it fair**



**or should it be changed and in what manner?**

Congress mandated a study of the "adequacy, effectiveness and equity" of the existing formula. A report was due to Congress on July 1, 1993. To date, HUD has not forwarded its recommendation to Congress. NCDA has formed a Formula Working Group Committee to respond to the HUD recommendations when they are released. At this time, we feel it is premature to comment on the formula issue and will be happy to provide you with the NCDA organizational position, once HUD has released its recommendations.

NAHRO's primary concern with the CDBG formula is what the impact will be of using 1990 Census Data. Communities that will suffer a loss of funding under the new data need a two year partial "hold harmless" to adjust their activities. Without such a phasing in of the changes, communities will not have time to identify other resources and adjust their activities and their needy residents will be severely impacted. NCDA supports the hold harmless provision.

**5) Secretary Cisneros has proposed a LIFT program. This program would use \$200 million of CDBG funds for a competitive grant program to provide subsidies to leverage private investment in private investment in distressed neighborhoods. Is this type of program better left to state and local governments? How do you view the LIFT proposal?**

While NCDA and NAHRO applauds the Administration's effort to address a problem affecting many of our urban communities with an infusion of targeted and expanded economic development resources, we strongly oppose taking those funds from CDBG for this purpose. HUD notes in it's budget documents that, "CDBG remains the most flexible community building tool to Mayors and Governors." We want to retain that flexibility by not earmarking or further segmenting CDBG. This concern was addressed by HUD staff in a meeting with national public interest groups. The groups were advised that while HUD is moving forward with the LIFT program, the funds will **not** come out of CDBG, however HUD has not yet indicated from where the funding will come. NAHRO opposes the proposal that 75% of the LIFT funding be distributed at the Secretary's discretion. This seems contrary to HUD's articulated philosophy that they want to foster decisions-making at the local level according to locally generated planning. NCDA has not developed a position on the specific elements of the proposal. We will advise members of the Subcommittee upon adoption of such a position.

**6) Do you support the proposal to make the matching requirement for HOME funds a flat 25 percent for state and local recipients?**

NCDA and NAHRO support a flattening of the match requirement to 25 percent overall. Such a provision would eliminate the previous bias against new

construction and will therefore give communities the ability to choose their HOME program activities based on local housing needs.

**7) What types of programs have you used HOME funding for?**

Most Participating Jurisdictions have used their HOME funds for an assortment of the eligible activities, including: rental rehabilitation, first-time homebuyer programs, owner-occupied rehabilitation, new construction, land acquisition and tenant-based rental assistance. The national figures show:

<u>Activity Type</u>	
Rehabilitation	70.0%
New Construction	20.5%
Acquisition	6.5%
Rental Assistance	3.0%

<u>Project Type</u>	
Rental	60.4%
Owner-Occupied Rehabilitation	25.8%
First-Time Homebuyer	13.8%

The HOME program has also exceeded the benefit targeting guidelines dictated by Congress in the original HOME legislation. According to the report issued by HUD on March 31, 1994, over 56.7% of the HOME funds expended for rental projects has gone to serve those persons at 0-30 percent of the area median income and 31.8 percent for those persons whose income falls between 31 and 50 percent of the area median. In terms of homeowner activity, the benefits are more evenly distributed with 26.4 percent of the funds serving those persons between 31-50 percent of the area median and 26 percent serving those between 0-30 percent of the area median income.

**8) Other than an increase in funding, how can the HOME program be improved to make it responsive to state and local needs?**

Certainly with the passage of the "Multifamily Housing Property Disposition Reform Act of 1994" and the publication of the Fifth Interim rule, both of which reflect recommendations made last year by NCDA, NAHRO and the other national organizations representing local and state governments, the HOME program has become more manageable. Our recommendation would be further simplification of the regulations as well as some additional technical changes to the legislation. We have included a list of possible regulatory changes and will be submitting, with several other national organizations, some additional legislative recommendations for H.R. 3838. We also suggest that similar to the effort being undertaken in the

Empowerment Zone and Enterprise Community effort, as part of the consolidated plan process HUD should permit local jurisdictions to identify regulatory waivers that would improve their ability to respond to local needs.

Again, NCDA and NAHRO appreciate the opportunity to respond in detail to the concerns of members of the Subcommittee.

Sincerely,

*Daniel P. Henson, III*

Daniel P. Henson, III  
Commissioner  
Housing and Community Development  
Baltimore, Maryland

Enclosures

### Regulatory Changes to the HOME Program:

1. **HOME Activity Delivery Costs:** Conform the treatment of activity delivery costs under the HOME program to that under the CDBG program, i.e., allow them to be charged to the eligible activity with which they are associated. In addition, include the cost of monitoring project compliance as an eligible delivery cost.
- \* 2. **Definition of HOME Project:** Permit Participating Jurisdictions (PJs) the flexibility to define what constitutes a HOME project rather than limiting a project to site(s) or building(s) within a four block area.
3. **Use of HOME Funds for Initial Project Operating Reserves:** Remove the restriction in the regulations which limits funding for a projects operating deficit reserve during rent-up to 18 months. Instead of an arbitrary time limit, PJs should be required to maintain evidence of an agreement with the mortgage lender that funding for such a reserve, once no longer needed, will be returned for use in HOME-eligible activities. This would facilitate use of HOME funds in risk-sharing arrangements by PJs. Not only should this be permitted for new construction and sub rehab projects, but for mod rehab projects as well.
4. **Increase in FHA Mortgage Insurance Limits:** Immediately publish the 20 percent increase in the 221(d)(3) multifamily mortgage insurance limits (which establishes the maximum HOME subsidy limit) authorized by the 1992 amendments in order to allow use of the higher limits for HOME-assisted rental housing. This increase is critical to making projects feasible in high cost areas.
- \* 5. **Equity Investments for Project Financial Work-outs:** Clarify that equity investments made as part of the financial work-out of an existing low-income housing project are an eligible use of HOME funds. The current regulations require the property to be acquired, rehabed, or constructed in order for HOME funds to be used. This is an unnecessary requirement and may undermine use of HOME funds to preserve affordable housing where it is appropriate.
- \* 6. **C/MIS System Projects:** Permit PJs to establish as projects with the Cash and Management Information System (C/MIS) homeownership, including rehabilitation, programs rather than a separate project for each household assisted.
7. **Pre-environmental Clearance Cost** - Make pre-environmental clearance activity costs reimbursable activity delivery costs in order to permit PJs to undertake them. Under current HUD interpretation, costs associated with pre-environmental clearance (NEPA) activities may not be reimbursable for specific projects. Only costs associated with post-NEPA clearance would be reimbursable. Therefore such costs as appraisals, environmental (lead/asbestos) inspections, energy calculations, architects,



civil engineers, outside consultants to do market studies cannot be charged to the project, if the NEPA clearance has not been approved. PJs, developers and nonprofits depend on these activities to move forward on projects; however, if such expenses are not reimbursable, then prospective projects will not be pursued.

**8. Additional Forms of Matching Contributions:** In the event that the current law matching requirements are not changed, clarify that the difference between acquisition cost and the appraised value of land or other real property, acquired with or without federal resources, is eligible match. The regulations currently allow such a differential to count in the case of properties acquired from RTC for affordable housing. Also consider owner contributions as match, in terms of land, owner investment or private debt.

**9. Projects out of Compliance:** Clarify that, in the event that a project which a PJ funds falls out of compliance with the requirements of HOME, the jurisdiction shall first seek to return the project to compliance, than if necessary make reasonable efforts to see that the project developer repays the HOME subsidy; but in the event that the developer/owner cannot repay the subsidy, permit HUD to reduce future grants but not require the jurisdiction to repay such subsidy to its HOME trust fund or to HUD.

**10. Housing Quality Standards and HOME-Assisted Housing:** Exempt housing units receiving \$5,000 or less in HOME funds for weatherization, emergency assistance, home repair, or accessibility from Section 8 Housing Quality Standards. This would permit PJs to address emergency or life threatening problems, or prevent further deterioration of a unit.

**11. Environmental Review:** Provide an exemption from the requirements for rehab or one to four units and all owner-occupied rental and homeownership projects and provide flexibility by permitting one environmental review for projects receiving both HOME and CDBG funds. Where the HOME program determines a project to be rehab for environmental review purposes, allow that determination to supersede that of HUD's environmental review staff.

**12. CHDO Operating Funds:** Clarify that, at the discretion of the PJ, the up to 5 percent of its allocation which may be made available for CHDO operating assistance may be taken from within or outside the CHDO set-aside.

**13. Drawdown of HOME Funds:** Increase from 15 to 30 days the time frame within which funds drawn down must be spent. The 15-day time limit is particularly burdensome for urban counties and consortia which deal with multiple subrecipients.

**14. Definition of Net Proceeds for Homeownership:** Clarify that the definition of net proceeds includes improvements made to the property by the owner.

**15. Spending HOME Funds:** Clarify that PJs may commit FY93 HOME funds prior to having fully committed FY92 funds in order to permit them to take advantage of

opportunities such as the acquisition of land for affordable housing. Also eliminate the provision that program income must be spent before further funds are drawn down for the same reasoning.

**16. Recognition of Match:** Should the existing matching requirement not be changed as recommended above, allow PJs to begin accruing match for HOME eligible activities as soon as they have signed their FY93/FY94 HOME agreements, rather than waiting until they begin drawing down their FY93/FY94 funds.

**17. C/MI System For Tenant Assistance:** Eliminate the requirement that specific information (social security number, amount of tenant contribution, amount of subsidy) be provided up front on each tenant to be assisted with HOME funds, requiring instead that such information be contained in the completion report. PJs should be required to indicate up front the number of tenants expected to be assisted and the total amount of subsidy expected to be provided.

**18. C/MI System and CHDOs:** Allow CHDO projects to be set-up in the C/MIS (therefore show them as a commitment) prior to complete CHDO identification of all financial sources and/or completion of approval/filing as a CHDO. This would enable PJs to commit their CHDO monies faster rather than waiting for the lengthy CHDO approval process.

**19. Limitation on Use of HOME With FHA Mortgage Insurance:** Remove the requirement that the HOME affordability period corresponds to the term of an FHA insured mortgage when HOME funds are used in connection with housing financed with a mortgage insured by HUD. HOME affordability requirements should prevail.

**20. Property Value Limits:** Allow local jurisdictions to base property value limits on the area median income as provided in the statute.

✱ **21. Definition of Affordable for Subsequent Low-Income Borrower:** Eliminate the regulatory requirement that first-time homeownership units be made affordable to the subsequent low-income buyer at a price that is 30% of 75% of median income. The statute requires that the unit be affordable but does not specify the actual amount. PJs should be given the option to define what is affordable to another low-income purchaser.

✱ **22. Definition of SRO under HOME:** Conform HOME's definition of Single Room Occupancy (SRO) projects to that used in other federal programs such as the McKinney Homeless and Shelter Plus Care programs, thus allowing HOME to be used in combination with these programs.

**23. Flexibility with Davis-Bacon:** Eliminate Davis-Bacon requirements for HOME projects of 12 units or more, but scheduled to be sold to individuals as separate units.

# Coalition

## *for Low-Income Community Development*

### **Answers to Questions Posed by Rep. Michael N. Castle to the Coalition for Low-Income Community Development on March 16, 1994 hearing on H.R. 3838**

1. Yes, we do agree with the Inspector General's report. We do believe that the neediest communities are not benefiting from the CDBG program as well as it could. There are numerous accounting flaws in the CDBG program that allow the funds to be inappropriately (although not illegally) spent in communities that are not really lower income. The two major accounting flaws are not using proportionate accounting, and using the "quartile option." I have attached a copy of CL-ICD's winter publication which focuses on just this problem - targeting and the CDBG program. In it we discuss the Inspector General's report and detail a brief history of targeting and the CDBG program. In particular we discuss how the low-mod numbers reported are greatly inflated (see attached pages 11 & 15).

2. CL-ICD is in favor of returning to an application process for CDBG. Currently there is no "up front" review by HUD of how CDBG dollars are being spent. This is an entitlement program and cities and states receive their allocation regardless of how it plans on spending it. If there ends up being a problem with the spending patterns, HUD must discover it during their monitoring and then hope to recover the funds. The problems with this system are obvious.

a. HUD must actually discover there is a problem. HUD is grossly understaffed and simply does not have the capacity to monitor the program very closely.

b. There is no good mechanism for sanctioning jurisdictions who do not perform well. The review and appeal process is cumbersome and rarely results in significant disciplinary actions to communities doing a poor job of using CDBG funds. Likewise there is no reward system for jurisdictions doing well. If the stick approach is hard to implement, perhaps using a carrot would help. The problem is that this is an entitlement program and jurisdictions get the funds (for the most part) regardless of their performance.

3. We do not believe that the CDBG program (overall) is unusually slow in spending its funds. Some particular communities may be, but for the most part the funds do get allocated in an appropriate time frame. The actual drawing down of the funds can sometimes appear slow because the program is developing housing and infrastructure and cannot actually draw down funds until the project is on line. The funds are allocated by the communities but may not be ready to draw down the funds.

4. Our coalition does not have a specific position on changing the allocation formula. Our general philosophy about how the program dollars should be spent focuses on the neediest communities. Since CDBG is funded by scarce (and becoming scarcer) federal dollars, we believe the funds should go to our nation's poorest communities. We believe that poverty factors should weigh in heavily in changing the allocation formula.

5. HUD is proposing legislative language to authorize its new initiative, the Neighborhood "Leveraged Investments for Tomorrow" (LIFT) Program. An appropriation of \$200 million will be requested for 1995 from the CDBG account. In its budget report HUD states that "this project-based neighborhood economic development program will stimulate investment in economic and physical revitalization projects to improve the quality of life in development projects that further the comprehensive revitalization of distressed urban neighborhoods."

Eligible applicants will be units of local government, with funds to be awarded through a national competition based on selection criteria in the statute, along with other factors to be published by HUD in program regulations and the Notice of Funding Availability (NOFA). Eligible activities will include specific industrial, commercial, or mixed-used real estate projects. Only entitlement communities appear to be eligible for LIFT grants. This information about HUD's proposal is based on what we have read prior to the release of their actual legislative package (which is not available as of this writing).

Our concerns are outlined as follows:

a. Funding. As it is currently proposed, it appears that the \$200 million funding for this program will come "off the top" of the CDBG appropriation. We hope that if this \$200 million program is authorized, Congress would authorize at least \$4.6 billion for the overall CDBG program. This would allow CDBG to not experience an overall budget reduction from FY 1995.

b. Protection of funding for States & Small Cities Program. It appears at this time that only entitlement communities are eligible for this competitive program. If that is the case, CL-ICD strongly urges that funds used for the program are taken directly from entitlement communities. The small towns and rural areas that are part of the States and Small Cities program should not receive a cut in their funding level because of a competitive, urban set-aside program.

c. Different tiers for competition. Most competitive programs favor the larger entitlement communities. There has been some concern raised by smaller entitlement communities that only the very major, urban areas, would likely receive LIFT funds. We recommend that HUD incorporate different tiers, based on population size, as part of its competitive application process.

d. Need for neighborhood economic development versus downtown development. Our interest in the program is centered on it being a neighborhood-oriented economic development program. We will support LIFT if it is clear that the goals of the projects funded are based on increasing the neighborhood's economic base, and that residents of the



community as well as neighborhood non-profit organizations are directly involved in the planning. Neighborhood residents should benefit directly from the projects funded through jobs and the receipt of credit for residential business ventures.

e. Involvement of CDCs and community-based non-profits. We recommend that capitalization funds and investment opportunities for the neighborhood be administered through joint ventures with CDCs and community-based non-profits.

Questions on the HOME program.

Our Coalition is organized only around the CDBG program and therefore we do not address the HOME program.

If you would like any additional information about our Coalition, the work we do, especially as it related to increasing the targeting of the program to lower-income people, please contact Karen Stokes, Executive Director of CL-ICD, at (410) 945-2835.

## Low-Mod Targeting of CDBG: Greatly Inflated Numbers are Reported

As noted in our article on the Annual Report in this issue and in previous issues, the percentage of CDBG funds reportedly spent for the benefit of low- and moderate-income persons is significantly inflated. Because the entire cost of a CDBG activity, not just the proportion of funds which actually benefit lower-income people, can be counted as benefiting lower-income people, the percentage of funds that HUD reports as targeted to this national objective is quite misleading.

### Area-Wide Benefits

This inflation is especially prevalent when the area-wide benefit test is used to measure benefit to low/mod persons. A project can meet the area-wide benefit test if at least 51% of the residents of a geographic area are lower-income. Therefore, 100% of the funds spent on a project can be credited as benefiting lower-income people, when in fact, only 51% of those funds may actually benefit them, while 49% of the money benefits those with higher incomes.

For the first time, HUD has acknowledged in its 1993 Annual Report that the problem of inflated figures regarding targeting exists. HUD pointed out that, "Statements in this report about the extent to which funds have been used for activities that benefit low- and moderate-income persons may be misleading concerning the degree to which low- and moderate-income persons benefit from program expenditures." Furthermore, HUD states that the 91.4% of funds that they reported as meeting the low- and moderate-income objective did not solely benefit those persons.

Recognizing this fact, HUD used a method of analysis that took the 51% figure into account and came up with numbers that probably correspond more closely to the degree that lower-income persons actually do benefit. For example, only 65.6% of the expenditures measured by the area-wide test that were reported to have met the national objective of lower-income benefit actually did so. The other tests did better: the percent of funds benefiting lower-income persons for activities qualifying under the Limited Clientele test was 89.9% and for the Job Creation or Retention test, the figure was 74.6%. The Housing test is the easiest to apply, and so 94.8% of the funds reported as benefiting lower-income persons actually did so.

### How the Quartile Option Works

The "quartile" or "exception" option is an additional way that the actual targeting of lower-income persons is not accurately reported. The law states that an activity designed to serve an area generally:

- "shall be considered to principally benefit persons of low and moderate income if (our emphasis) not less than 51 percent of the residents of such area are persons of low and moderate income," and

- if "in any metropolitan city or urban county, the area served by such activity is within the highest quartile (our emphasis) of all areas within the jurisdiction of such city or county in terms of the degree of concentration of persons of low and moderate income." (Sec. 105(c)(2)(A) of the CDBG law)

In practice, this part of the law means that a jurisdiction can count 100% of an activity toward the low/mod benefit if even less than 51% of an area is lower income. Here's an example that shows how it works:

An urban county such as Fairfax County, VA — a mostly wealthy suburb of Washington, D.C. — does not have any areas with a 51% or more concentration of lower-income residents. However, if Fairfax County wants to build a water system with CDBG funds, it must measure whether this activity meets the low/mod objective by using the area-wide test. Since Fairfax County doesn't have a 51% concentration of lower-income persons anywhere in the county, it can use the quartile option.

To use the option, first, the county makes a listing of the percentages of lower-income people concentrated in each census block group within the county. The listing is from highest to lowest. Second, the county divides the list of all the percentages into four equal parts. For example, if the county has 20 census block groups, there are going to be five percentages in each of the four parts. These four parts are known as "quartiles." Third, the county looks at the top quartile (the five percentages that are the highest) and identifies the lowest percentage listed in that particular part. Fairfax County may have 40.3%, 37.9%, 32.4%, 30.1%, and 22.3% listed in their top quartile. The lowest percentage in that group is 22.3%, and that is the percentage that replaces the 51% requirement that other jurisdictions must follow. The 22.3% is called Fairfax County's exception percentage.

So, Fairfax County has an exception percentage of 22.3%. This means that if an area in the county has at least 22.3% lower-income residents, the area-wide benefit test can be used to qualify the funds as meeting the national objective of benefiting lower-income persons.

If Fairfax County uses \$1,000 of CDBG funds to build its water system in an area where there are 22.3%

(See LOW-MOD #S, Continued on page 15)

*(TARGETING, Continued from page 14)*

targeting; 40% to "very low income" people. Eventually, Rep. Henry Gonzalez (D-TX) introduced H.R. 4, targeting 75% to low/mod. The Senate was silent. Emerging from Conference Committee, CDBG's "principal" benefit standard inched up to 60% to low/mod.

#### **Anna Kondratas and the Hope For Greater Targeting**

Jack Kemp's Assistant Secretary for CPD, Anna Kondratas, indicated a sincere interest in improved targeting. Although very conservative, Kondratas believed that if any federal money was to be spent for community development, it should focus on people who were truly in need. She worked very closely with the Coalition for Low-Income Community Development (CL-ICD).

CL-ICD recommended adding a "second tier" of targeting, an amount devoted to people with incomes below 50% of the area-wide median. Specifically, it aimed for 75% of CDBG to reach people with incomes below 80% of the areawide median and 40% to be spent on activities benefiting people with incomes below 40% of the area-wide median. Amazingly, the Bush/Kemp Administration agreed with the 75% level, but not the second tier.

Another CL-ICD position was a part of the Kemp/Kondratas legislative package: "proportionate accounting." CL-ICD and HUD wanted the amount of CDBG money counted as "benefiting" lower-income people to be proportionate to the actual benefit. For example, an "economic development" project that uses \$100,000 in CDBG and generates 53 lower-income jobs, along with 47 other jobs (for a total of 100 jobs), allows a city to count all \$100,000 toward its obligation to use [at the time] 60% of its CDBG to benefit lower-income people. Proportionate accounting would reduce the "inflation" by counting only \$53,000 toward the 60% obligation because only 53% of the beneficiaries were lower-income people.

CL-ICD also considered proposing the use of a "jurisdiction's" median income instead of using the "area-wide" median income. In most places the use of the area-wide median greatly inflates the standards of 80% and 50% of median because the affluent suburbs get counted in the mix. For instance, in Cleveland in 1992, a four-person household could have an income of \$31,000 and still count toward CDBG's "primary objective." People at the poverty level could be completely ignored. Ultimately, CL-ICD did not aggressively pursue this possible targeting reform due to a lack of internal consensus both within the organization and HUD.

HUD also sought to include an "anti-poverty" plan as part of CDBG, and to require affluent counties to spend 100% of its CDBG for lower-income people.

All of this was vehemently rejected by the Senate in late 1989. Later in 1990, the National Affordable Housing Act (NAHA) was passed. In it, the CDBG "Primary Objective" threshold was raised to 70%. (No second tier, no proportionate accounting, no anti-poverty plan.)

#### **Into the Future**

During the earliest days of the Clinton Administration, HUD attempted to push a lot of extra money out the door as a "stimulus" to the economy. CDBG would have been its vehicle, had the initiative not imploded in on itself. At the time, there were many rumors about an intent to exempt the "stimulus" from lower-income benefit. For a while too, the Clinton Administration considered exempting the CDBG Section 108 Loan Guarantee Program from the "Primary Objective." Clearly, the struggle that took shape in 1971 under Nixon continues today under Clinton.

For more information, contact Ed Gramlich, Center for Community Change, 1000 Wisconsin Avenue, N.W., Washington DC 20007, (202) 342-0567. 📧

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#### *(LOW-MOD #5, Continued from page 11)*

lower-income persons, the total \$1,000 is counted as benefiting lower-income persons. In actuality, 77.7% of the area is populated by residents with incomes over the moderate-income level. Of that \$1,000 in CDBG funds, \$777 was spent for those above the moderate-income level.

#### **Inflated Targeting Reports**

Fairfax County reports how it spent its CDBG funds in its GPR. The report goes to HUD and eventually the percent of funds that HUD says benefited low/mod persons is compiled for the entire country. The word of caution, then, is to be aware when looking at a GPR that targeting percentages can very well be inflated with the quartile option.

To obtain accurate information, contact your local HUD office and find out if an exception percentage is used in your area. 📧



(MR. DOBSON'S RESPONSES)

**Rep. Michael N. Castle - Questions for Witnesses**

1. The HUD Inspector General has reported that some communities receiving CDBG grants are not funding projects that truly benefit low- and moderate-income persons. Do you have any comments on this issue? Specifically, do you think it is a problem and how can we ensure that these funds go for true community development projects and are not just used as some nice extra money for cities and local governments to use?

It is CUED's opinion that the Inspector General often makes assumptions about projects based on what HUD perceives as inadequate documentation by localities. Certainly, there may be anecdotal examples of communities not using CDBG for low- and moderate-income (LMI) people. Projects that offer clear benefits to LMI persons but have inadequate documentation were included among these. The problems that communities have had with providing adequate documentation often resulted from HUD's onerous paperwork requirements. Recent statutory changes and expected regulatory changes aimed at reducing these requirements will likely reduce the number of anecdotes to which the Inspector General can point.

We do not believe this is a substantial problem. While we endorse the Committee's efforts to punish those grantees that clearly breach faith with the taxpayers, we feel that most of the "technical violations" of regulatory compliance requirements have resulted from impractical requirements.

2. What is your view of the HUD application and decision process for CDBG grants? How can it be improved? Should HUD combine the CDBG and HOME application processes?

CUED has no major objections with the CDBG grant process. We are, however, concerned that HUD continues to add new entitlement communities while they are restrained by statute to provide only 70 percent of all CDBG funds to that growing number. The result is that more and more cities are dividing an inadequately funded "pie."

3. Another criticism of the CDBG program is that it is very slow in allocating funds. In 1993 there was a \$3 billion backlog in unspent and unallocated funds. How can this problem be solved?

The primary reason that there is a backlog is that certain projects are difficult and take time to put together. For the project to go forward, the funds must be allocated in advance. Complex projects are difficult to undertake in a short time; however, thoughtful consideration needs to be given on how to speed this process. CUED would be glad to help bring together communities and HUD to work on suggestions to improve local



performance in this area.

4. Do you have any views on the CDBG allocation formula? Is it fair or should it be changed and in what manner?

CUED does not hold a position on this issue.

5. Secretary Cisneros has proposed a LIFT program. This program would use \$200 million of CDBG funds for a competitive grant program to provide subsidies to leverage private investment in distressed neighborhoods. Is this type of program better left to state and local governments? How do you view the LIFT proposal?

At this time, CUED does not have enough information about the LIFT proposal to comment on it. As a general principle, we support any initiative aimed at putting the "UD" back in HUD, and we view the LIFT proposal in this light. However, we have not been consulted in the program's design.

The National Council for Urban Economic Development does not deal with housing issues in relationship to the HOME Program.

March 16, 1994, Housing Subcommittee Hearing on  
CDBG Program and Home Investment Partnership Program

RESPONSE TO QUESTIONS FROM REP. MICHAEL CASTLE  
FROM PATRICIA PAYNE

Community Development Block Grant Program (CDBG)

1. CDBG Effectiveness at Targeting Low and Moderate Income Persons.

I understand your concerns about the finding by the Inspector General that some communities receiving CDBG grants have not funded projects that truly benefit low and moderate income persons. This, COSCDA believes, is an exception. In Maryland, my department has administered the non-entitlement portion of the CDBG Program for eight years. During this period approximately 90% of the funds have gone to local projects which assist our low and moderate income citizens. This is typical of other states. In addition, the majority of the large cities or entitlements under the CDBG Program use their funds to assist the low and moderate income population as well. However, there will always be a few who violate the rules. HUD's approach to these violators should be changed. Instead of establishing more restrictions up-front for all states and entitlement jurisdictions regardless of their performance, HUD should aggressively audit actual use of funds and penalize those who use the funds as "nice extra money for cities and local governments." This approach avoids subjecting all grantees to extra paperwork burdens.

2. HUD's Proposed Consolidated Application and Reporting Process.

HUD has proposed the consolidation of the application and reporting processes for the HOME, CDBG, ESG and HOPWA programs. There is an obvious interrelationship among these funding sources and programs. This type of an holistic approach to problem solving is the only way, we as a nation, will be successful in resolving these problems and helping our low and moderate income citizens achieve self-sufficiency.

However, practically if HUD treats this consolidation as, or converts it into, a massive data collection exercise to "identify needs" and report only on those "identified needs", then it is doomed for failure. First, the primary source of most data is the national Census of Population. Very few, if any states or local governments, have data bases on housing, community development, infrastructure, homelessness, etc. Funds should be spent on programs to

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resolve the perceived problems, not in collecting information to determine the exact breath and depth of the problems. This isn't necessarily the ideal way to approach problem solving, but when public funds are scarce, priorities are for problem resolution not identification.

Having made these comments let me reiterate that coming from a state which approaches solving its housing and community development problems in an holistic manner, we and COSCDA are generally supportive of HUD's intention to consolidate applications and reporting for HOME, CDBG, ESG, and HOPWA. However, we are concerned about the actual implementation of such a consolidation and would not support an approach which results in a massive data collection exercise.

### 3. CDBG Program and Unexpended CDBG Funds.

The backlog of unexpended CDBG funds is a problem, COSCDA recognizes this, as do I. However, it is important to understand that while entitlements or large cities under the CDBG Program directly control expenditures, as a non-entitlement or state CDBG administrator, we have only indirect control of expenditures. The local governments to which we award CDBG funds for projects have direct control over expenditures. In addition, HUD requires states and local governments to meet the identical expenditure requirement: ratio of total cumulative unspent CDBG funds - most recent CDBG annual allocation equal to 1.5.

Development of housing, infrastructure, etc., especially in rural areas is a long-term process often taking more than one and a half years to complete as implied by HUD's expenditure ratio. In addition, local capacity and project readiness often is a problem with many rural local governments. To resolve these problems, we in Maryland have recently initiated numerous changes in administration of our CDBG Program, including: 1) the elimination of an annual competition for funds and the initiation of an open year-round application process; 2) the recapture and reallocation of unexpended funds; 3) the forward commitment of funds under certain conditions; 4) the provision of intensified application assistance to prospective applicants and management assistance to grantees with slow moving projects; 5) the provision of administrative funds, if necessary, to hire local staff or consultants to manage projects; and 6) the development and distribution of a manual and the scheduling of training on administration of local CDBG programs. Over time these actions will increase the rate of expenditure of CDBG funds.

4. CDBG Allocation Formula.

COSCSA basically has no comment with respect to the current CDBG allocation formula or prospective changes to it. The criteria, especially the percent of persons in poverty and the percent of stock considered substandard, will be drastically changed if 1990 Census information is used. Some states and cities will gain funds at the expense of others. It would be difficult for me to assume a particular position, since I recognize the existence of need for the CDBG funds nationwide. It is unfortunate that discretionary funds for resolution of domestic problems are generally scarce, when the need is obvious.

5. CDBG funds and the LIFT Program.

COSCSA generally and I personally are supportive of Secretary Cisneros' new Neighborhood Leveraged Investments for Tomorrow (LIFT) Program. As I stated previously the need for additional funding to resolve housing and community development needs, particularly in distressed neighborhoods, is great. However, neither COSCSA nor I are supportive of using \$200 million in CDBG funds to support the program. We recommend that an alternative source of funds be used. We do, however, support the ability of states to be eligible applicants for the LIFT Program funds.

HOME Investment Partnership Program

1. We wholeheartedly support the proposal to make the matching requirement for HOME funds a flat 25 percent for state and local recipients. The two-tiered match unfairly penalizes state and local governments which need new construction to address their housing needs and creates unnecessary administrative burdens for states and HUD. In addition, a flat match would be easier to track for HUD and the participating jurisdiction.
2. We have used HOME funds for acquisition, new construction and rehabilitation of rental housing and homeownership projects; owner-occupied rehabilitation; replacement housing; settlement expense and downpayment assistance to first-time homebuyers for a variety of housing, including manufactured housing; settlement cost and downpayment assistance to persons with disabilities; acquisition of group housing; and for gap financing with state-funded projects and other federal programs.
3. The HOME program can be made more responsive to state and local needs by removing statutory and regulatory barriers that would make the program more user friendly. For example, simplify rent structure, be more flexible with



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monitoring guidelines and remove the more restrictive requirements under match.

Response to Questions from Representative Castle to Henry Flores

Housing Subcommittee Hearing on CDBG Program and HOME Investment Partnerships Program

March 16, 1994

Community Development Block Grant (CDBG) Program

We do not have any comments on the CDBG program.

HOME Investment Partnerships Program

1) Do you support the proposal to make the matching requirement for HOME funds a flat 25 percent for state and local recipients?

We strongly support this proposal. We are delighted that Congress approved it March 25 in the Multifamily Property Disposition Reform Act of 1994.

2) What types of programs have you used HOME funding for?

The State of Texas received an FY 1992 HOME allocation of \$31.4 million, to which we have added \$5.6 million in state matching funds. As of March 9, 95 percent of these funds were committed. We made HOME funds available for every HOME-eligible activity. Demand for owner-occupied rehabilitation, a high priority in our Comprehensive Housing Affordability Strategy (CHAS), was particularly great and received nearly 60 percent of our FY 1992 funds. Rental projects received another 32 percent. We also funded tenant-based rental assistance and first-time homebuyer programs.

The State of Texas has three basic tests for whether a HOME project ought to be funded:

- 1) Does it help poor people?
- 2) Does it change the future of the state?
- 3) Is it cost-efficient?

These are the premises under which we operate the HOME program in the state of Texas. With that in mind, we have so far funded over 1,783 HOME-assisted units, of which 58 percent were for very low income families. Just over 1,000 of those units serve persons with special needs, particularly the elderly and people with mental disabilities.

Next year, we plan to even more aggressively direct the use of our funds. In particular, we expect to emphasize first-time homebuyer programs and rental projects in the next funding rounds. Programs to create new homeowners are critical to helping lower income Texans realize the American dream of economic self-sufficiency. Decent, affordable rental housing is also sorely needed for those not yet able to attain homeownership.

I am pleased to report that we have had an excellent response from CHDOs. We awarded 32 CHDOs nearly 29 percent of our FY 1992 funds. The majority of grantees under our program are local governments, which received about 60 percent of our funds.

An example of the type of innovative program being funded under the Texas HOME program is the New Beginning Center, located in Garland, Texas, which we awarded \$100,000 in HOME funds to provide tenant-based rental assistance (TBRA) to poverty level battered women on the Section 8 waiting list. The Center also received funds from other federal programs and corporation and foundation grants.

The HOME TBRA will be combined with a comprehensive service delivery system that supports the development of independent living skills and simultaneously addresses the financial and emotional needs of battered women and their children who are at risk of becoming homeless. The TBRA funds will make it possible for the women to receive longer term rent assistance while they are working towards self-sufficiency and independence.

The HOME program is succeeding in building creative new partnerships among public and private entities. An example is a joint program of the City of Edinburg and the Edinburg Housing Authority which we funded to finance construction of 18 single family homes to be sold to low and very low income families currently residing in public housing.

The City will use its HOME funds to provide 100 percent upfront financing for the construction of the first 11 units. As these units are completed, a local financial institution will buy a portion of the mortgage. The city will then recapture that money to begin construction of the remaining units. The AFL-CIO Investment Trust will assist in the second phase of development of the subdivision by purchasing a portion of each loan. The city will also provide a \$10,500 deferred loan and a \$12,250 zero interest loan. The remaining mortgage of \$12,250 will be financed by a local financial institution with a 25-year repayable loan at no more than 5 percent interest.

**3) Other than an increase in funding, how can the HOME program be improved to make it more responsive to state and local needs?**

We encourage the Committee to consider the following HOME amendments, which would further ease administration of the program:

#### Make HOME Rents More Compatible With Other Federal Programs

Currently, HOME-assisted rental units must bear rents not greater than the lesser of Fair Market Rent (FMR) or rent that does not exceed 30 percent of 65 percent of median income adjusted by unit size. This has created difficulties in combining HOME with some other forms of federal assistance, which allow rents to be set at higher levels, while regulating the tenant contribution so that the unit remains affordable to low income families. The difference between the affordable level and the actual rent is typically made up by rental assistance.

This is primarily an issue under HOME when 30 percent of 65 percent of median income is less than the FMR. While projects funded under other federal programs could set rents up to FMR (or even above), the HOME rents must be below FMR. This reduces the project's cash flow, which could render the project infeasible from the start or threaten its long-term stability. Under the Tax Credit program, for example, the tenant contribution to rent is 30 percent of 60 percent of the median income, and the difference between this level and the FMR may be bridged with rental assistance. Under the McKinney SRO program, Section 8 assistance is provided at rents up to 120 percent of FMR.

We believe this administrative problem can be overcome by regulating the tenant contribution rather than the rent level, as is done under the Tax Credit program and as is already authorized for the 20 percent of HOME rental units in each project which must be targeted to families with incomes not more than 50 percent of median income. For example, the rent requirement might be amended such that individuals pay as a contribution towards rent not more than 30 percent of 60 percent of median income, adjusted for unit size consistent with the Tax Credit. This would make HOME more attractive as a resource to combine with programs like the Tax Credit and McKinney. It would also make it easier for project sponsors to structure HOME financing, since it would be one less set of rent rules to understand.

#### Revise Monitoring Requirements

State HFAs believe that monitoring is essential to ensuring long-term compliance with low income use restrictions. However, we believe the yearly on-site review currently required for HOME is more frequent than necessary. Therefore, we recommend that the HOME monitoring standards conform to the standards NCSHA has advocated for the Tax Credit, under which jurisdictions would perform an annual desk review of tenant files supported



by an on-site review of each project in its first year and every three years thereafter. This would ease the administrative burden while still ensuring regular compliance monitoring.

### The Match Conundrum

Many jurisdictions continue to struggle with identifying HOME match, in part because of concerns about how to deal with HUD's interpretation of the provision which Congress approved in 1992 to clarify that state and local funds invested in housing which qualifies as affordable under HOME but is not HOME-assisted counts as match (HOME-eligible housing).

HUD's pending interim rule will require that repayments of matching contributions from both HOME-assisted and HOME-eligible projects be made to the jurisdiction's HOME account to receive match credit. We believe this will undermine state and local programs by drawing off repayments, interest earned, and investments from the state program into the HOME account. The purpose of the matching requirement is to ensure that state and local jurisdictions commit their own funds toward affordable housing, not to build up the HOME account. State matching funds should be allowed to return to the state housing programs they were drawn from, just as federal HOME funds return to the HOME program.

We believe that Congress intended that resources committed to state programs providing similar housing opportunities to the same range of income levels as under HOME should count as match. We do not believe Congress intended to force states to redesign their programs to conform to the HOME rules in minute detail. HUD's excessively legalistic reading of the HOME-eligible provision could exclude a substantial portion of state resources committed to housing programs from counting as match. In some cases, for example, the definition of income under a state program may vary slightly from the HOME definition which HUD established by regulation. We believe HUD should allow the state definition to take precedence in this type of situation so that states are not required to recalculate the incomes of every assisted family, an exercise which will waste enormous amounts of time only to determine that every or virtually every assisted individual in fact qualifies under either definition. HUD should also accept minor variations in rent limits, affordability or recapture requirements.

On HOME-eligible match, the interim rule requires that jurisdictions put in place detailed, signed agreements with project sponsors that all relevant HOME requirements are met. This is an unnecessary administrative burden. Jurisdictions should be able to simply certify that their HOME-eligible match is in projects meeting the relevant requirements. Such self-certification is already accepted under other HOME provisions.

## CITY OF BALTIMORE

KURT L. SCHMOKE, Mayor



## OFFICE OF THE MAYOR

250 City Hall  
Baltimore, Maryland 21202

TO: Subcommittee on Housing and Community Development  
8303 Rayburn Building  
Washington, D.C. 20515-8052

FROM: *Robert W. Hearn*  
Robert W. Hearn  
Office of the Mayor  
Baltimore, Maryland 21202

RE: Request for Information on The HOME Program, based upon Mayor Schmoke's testimony before the Subcommittee on March 16, 1994

DATE: July 18, 1994

In the context of Mayor Schmoke's testimony, the Honorable Chairman Henry B. Gonzales requested information on the types of activities being implemented in Baltimore City with HOME funds.

Baltimore City received \$17.1 million in HOME funds in fiscal year 1992 and 1993. Approximately \$1.7 million was used to cover costs for administering the program and the City has committed \$13.2 million to 24 projects for 569 units of housing. Eighty-eight percent (88%) of these housing units are rental and 12% are ownership units. We are currently funding at a rate that will commit all three years of our HOME Funds (not including administration costs) by December, 1994.

The City received applications for 97 projects totaling approximately \$59.4 million dollars. Clearly, reductions in HOME funding in fiscal year 1995 would impact our capacity to follow through with meeting housing demands in the City. Our allocation of HOME funds in fiscal year 1994 was \$6.7 million dollars. This \$6.7 million, combined with the remaining \$2.2 million of our fiscal year 1993 funds would give us \$8.9 million to work with - a shortfall of some \$33.4 million needed for our remaining 73 projects (2,044 units) under the HOME program. As a result, Baltimore City's initiatives justify both the continuation and strong federal funding support of the program. I, therefore, urge your continuing support of this vital housing program.

RWH/alb

(MR. HENSON)

April 18, 1994

The Honorable Henry B. Gonzalez  
Chairman  
House Committee on Banking and Urban Affairs  
B-303 Rayburn House Office Building  
Washington, D.C. 20515

Dear Mr. Chairman:

First let me thank you again for the opportunity to appear before your Subcommittee to testify on behalf of the National Community Development Association (NCDA) and the National Association of Housing and Redevelopment Officials (NAHRO) on March 16 concerning the reauthorization of the Community Development Block Grant Program (CDBG), Home Investment Partnership (HOME) Program and other key federal housing and community development programs.

I am writing in response to the questions that were raised during the hearing regarding the use of the Community Development Block Grant Program (CDBG) for economic development activities, the Section 108 Loan Guarantee program and the HOME program.

**1) and 2) What are your suggestions as how to promote the amount of economic development activities conducted by CDBG recipients? In your estimation, what hinders communities from conducting economic development activities?**

There is a certain inherent bias against economic development in the regulations as well as in the legislation. From information obtained from members, it appears that the majority of the Economic Development activity conducted with CDBG money is at the market demand of the business community pushing a City or State into an Economic Development project as opposed to the outreach effort by the Cities or the States to provide CDBG money for economic development.

The three major regulatory issues for Economic Development projects with CDBG are, eligibility, national objectives and "appropriate" underwriting.

### **Eligibility:**

We believe that there are no major structural problems with eligibility. In fact, Economic Development activity is probably under reported since HUD requires some activities to be categorized elsewhere. For example, you will find utility extensions under "Public Facilities", work training programs and transportation programs under "Public Service". Therefore, to remove one barrier to Economic Development would be to remove the Public Service cap for those projects that qualify as Economic Development related, such as day-care in industrial parks, employer-sponsored car pools for transportation, and most importantly, work training programs. A final point under "Eligibility" is the need for regulatory relief regarding technical assistance and certain administrative costs directly related to Economic Development.

Despite recent changes, more effort is needed in this arena as numerous experiences around the country indicate. Small businesses' most effective financial assistance should be accompanied by appropriate technical assistance, otherwise the loans or other assistance is not useful and the national objectives frequently under achieved.

### **National Objectives:**

Economic Development is best accomplished under the "Slums and Blight" category of eligibility. This is an "up-front" satisfaction of regulatory requirements. Potential employers (CDBG loan recipients) are fearful of the ongoing loan default downside of failure to meet job creation projections. However, many communities reach their 30% limit on "Slums & Blight". The 30% limitation should be waived for Economic Development projects.

CDBG is more difficult to use for job RETENTION than for job CREATION. This is due to qualifying household income that must include the current income of the job loss candidate. The regulations provide more benefit to a worker unemployed for one day, after his/her employer has left the City or gone under. Sadly, an employer can be assisted with CDBG easier if he/she fires all employees - rather than retain them - and create or rehire new ones!

Current HUD memos on appropriateness are mystifying and unclear, especially regarding the issue of what's regulation, what's legislation, and what's "safe harbor". The "Safe Harbor" memo guidance overlaps between national objectives, eligibility and "appropriateness".



Most Economic Development is done under new job creation for low/moderate income persons. Although "best faith efforts" to hire low/moderate persons is permitted in regulations, vis-a-vis actual creation of low/moderate jobs, the small business reporting is so burdensome that frequently business will not agree to a well-drawn loan document that incorporates federal regulations. A recent legislative change, allowing the definition of low income person to include those residing in enterprise zones or low/moderate income neighborhoods provides some relief. However, the best relief would have been exempting the business that locates in the enterprise zone and/or low/moderate income neighborhood in entirety. By virtue of its location, it should be exempt from other national objectives, such as jobs or service to low/moderate income persons.

### **Appropriate Underwriting:**

- >> Small businesses and small loans are not exempt from the appropriateness tests.
- >> For larger businesses and loans, the "appropriateness" test requires clarification on the rate of return issue, which both confuses and deters large investors willing to invest in low income neighborhoods.
- >> The "Appropriate" underwriting requirement is too cautious on the issue of cost reasonableness, but too lax on conflict of interest created by "identify of interest" relationships (e.g., overlapping ownership in buyer and seller of real estate equipment and services).

The "inconsistent interpretation of rules by HUD's headquarters and field offices" and the "gotcha" mentality of HUD staff are complaints frequently cited by our members to explain their lack of participation in CDBG funded economic development activities. Both of these charges are supported by the recently released General Accounting Office (GAO) report on utilizing CDBG for economic development activities.

The GAO report further identifies the requirement of the Davis-Bacon Act, a law that determines wage rates for federally assisted construction projects as a disincentive to use CDBG as an economic development tool as it drives up the cost of projects to where they become prohibitive for many communities. Additionally, Davis-Bacon discourages the use of minority and women owned businesses because of the increased administrative expense associated with completing a project.

In an effort to help decrease the cost of many smaller construction and rehabilitation projects in communities across the nation, NCDA recommends that Congress approve the provision contained in the "Davis Bacon Act", (H.R. 1231)

pending in the House that is designed to increase the federal contract dollar threshold for triggering the Davis-Bacon Act from \$2,500 to \$100,000. NAHRO recommends both a raising of the dollar threshold and inclusion of a percentage threshold so that there is one-fourth or one-third federal funding in a project before Davis-Bacon is triggered. This is reflected in H.R. 2042.

NCDA and NAHRO both support conforming the CDBG and HOME program requirements regarding the number of housing units necessary to activate Davis-Bacon, from 8 units (CDBG) to 12 units (HOME).

With the draft guidelines for economic development, mandated by the Housing and Community Development Act of 1992, HUD has responded to many of the concerns expressed by NCDA, NAHRO and other organizations by providing increased flexibility within the CDBG program for economic development. Once adopted, we believe these regulations will make it more feasible for grantees to undertake economic development projects and activities with CDBG funds, which will lead to an expansion of economic opportunity for low and moderate income persons as well as greater economic self sufficiency.

Additionally, CDBG program funding levels for communities is not sufficient to meet all the community's needs. Grantees must prioritize eligible activities based upon local conditions and available resources to meet those needs. The total amount of CDBG funding for entitlement communities has only risen by \$12.5 million from \$2.219 billion in 1975 to \$2.344 billion in 1992, while the number of entitlement communities has jumped from 594 in 1975 to 889 in 1992.

It is important to note that to obtain a true picture of the level of economic development activity at the local level, do not look solely at CDBG. Communities are also utilizing Economic Development Administration (EDA) programs and local revenue. Increased effort needs to be made between HUD and EDA as well as other federal agencies to assure that these very different economic development programs can be used in a complementary fashion.

**1b) Will the UDAG recaptures, which may provide the Department with \$100 million in extra funding, used in conjunction with the Section 108 Loan Guarantee program, reduce communities reluctance to engage in economic development activities with the Program?**

Both NCDA and NAHRO support the administration's proposal to expand the Section 108 Loan Guarantee program by using recaptured UDAG funds for communities to finance a portion of qualifying economic revitalization activities. However, it is unclear if the \$100 million HUD anticipated recapturing from UDAG projects to be utilized to write down interest rates or to assist grantees to set up a loan loss reserve, will be enough to encourage the expanded use of the

program.

NAHRO also supports the Amnesty proposal contained in the housing bill recently adopted by the House and Senate and signed by the President. This provision recognizes that many communities that have outstanding UDAG funds still have distressed conditions and should be given an opportunity to design new programs with flexible regulations before the funds are recaptured and offered to others.

The Section 108 Loan Guarantee Program provides communities with a source of financing for housing rehabilitation, economic development and large scale physical development projects. The principal security for the loan guarantee is a pledge by the applicant of its current and future CDBG funds.

Economic Development activities carried out with the proceeds from loans guaranteed under the Section 108 Loan Guarantee program must meet the same requirements that apply to the use of other CDBG funds. Accordingly, before using guaranteed loan funds to assist a for-profit business, the grantee must make the determinations outlined in this memorandum. In addition, the grantee must include in its application for loan guarantee assistance a narrative statement explaining how the proposed activity meets a national objective of the CDBG program.

Unlike activities assisted with other CDBG funds, HUD will perform an "up front" review of compliance with the CDBG program's eligibility and national objectives requirements. HUD central staff appear to understand the project and work with applicant's also, however field and regional staff are often ill-equipped to review the underwriting of such 108 Loan Guarantees.

There are several reasons why communities do not participate in the Section 108 Loan Guarantee Program, fear of "mortgaging" their future CDBG funds and lack of organizational capacity to package the Section 108 deals, as well as the previously mentioned regulatory limitations of the CDBG program for economic development.

In an effort to increase awareness of the Section 108 Loan Guarantee Program, HUD has developed a two-day training session to be made available in all ten HUD regions. This effort is designed to explain the program and encourage grantees to utilize the program as an economic development tool.

### **3) How do you feel about increasing the public services cap in the CDBG program?**

Currently, public services under CDBG are limited to 15% of a community's annual grant plus program income. Public services include, but are not limited to:

public safety programs, child care, job training, services for the elderly and handicapped, crime prevention and recreational services. NCDA policy supports a small expansion of CDBG public services from the current 15% to 20%.

This policy is consistent with both the United States Conference of Mayors (USCM) and the National League of Cities (NLC). This slight increase will enable communities to integrate their physical development activities with a measure of social services support. While NAHRO supports the integration of physical development with social services support, NAHRO has taken a position opposing the increase in the public service cap because of a fear that it will lead to a reduction in funding for other programs for similar activities. Increasingly, CDBG is being viewed by federal officials as the answer to all problems, from crime to safety to economic development, literacy and welfare reform; and yet the funding level of the program has not increased commensurately. NAHRO foresees a similar situation can be anticipated with the increased focus on CDBG for economic development. We believe that this new HUD emphasis is leading to less federal and Congressional support for the EDA and other programs, which will further squeeze the resources available to the local government. If we really want to combat poverty, we need to restore funding for programs like CSBG, JTPA, health care, and other human services programs.

NAHRO believes it is misguided to think that a relatively small program like CDBG is the appropriate vehicle to deal with the massive causes of poverty -- lack of adequately funded nutrition, health, education, job training and employment opportunity programs -- all of which have been significantly cut over the last 10 years.

NAHRO wants to see the problems of poverty addressed in our nation. But the proposal to make CDBG an anti-poverty program simply ignores the origins and intent of the program as a tool provided to local governments allowing flexibility to address a wide variety of **locally-defined** needs for neighborhood stabilization, economic development and to combat physical deterioration in our communities while also providing a limited level of human services support.

**4) In your testimony you recommended that HOME funds be used as a credit enhancement for conventional loans and that HOME funds be used for housing as CDBG funds are used under the Section 108 loan guarantee program. Can you elaborate on these two ideas?**

NCDA and NAHRO, as well as several other national organizations representing state and local elected and appointed officials have recommended that HOME funds be used as short term and long term guarantees. Below are expanded explanations for each of these ideas.



### 1) Use of HOME Funds as a Short Term Credit Enhancement

The statute is silent on whether HOME funds can be used as a credit enhancement to leverage financing from private lending institutions. To date, HUD has taken the position that this is not a permissible use of HOME funds. We recommend that the statute be amended to explicitly authorize Participating Jurisdictions (PJs) to use HOME funds to provide a guarantee or insurance for all or a portion of such non-federal financing for a limited period of time to support HOME-assisted single and multifamily affordable housing.

Under this proposal, a PJ could guarantee all or some portion of a loan made by a lender for a HOME-assisted single or multi-family project. The guarantee could be for a short term, to be determined by the PJ and lender, and could cover the undue risk of construction (rehabilitation) in the case of single family housing or construction (rehabilitation), rent-up and a year or two of occupancy for multifamily rental housing. The guarantee would constitute a pledge of some or all of the PJs current year allocation. The amount of the guarantee could decline over the term of the loan. The PJ would not draw down the funds for the guarantee, but it would reserve the amount in its HOME Investment Trust Fund. Only in the event of a default would the funds be drawn down. Fannie Mae and Freddie Mac could be encouraged to buy these permanent loans.

### 2) Long Term Guarantee Program Within HOME

There is a need for Participating Jurisdictions (PJs) to be able to leverage future year allocations of HOME funds in order to significantly expand the number of units which can be financed in any year. This proposal is modeled after the Section 108 loan guarantee program in CDBG. The program could work in two ways:

- a) PJs could provide guarantees for loans on HOME-assisted single family and multifamily housing. This loan guarantee would be sufficiently flexible to cover construction and permanent financing, homeownership and rental housing, taxable and tax-exempt financing, partial and full coverage against losses, and short- and long-term guarantees. The guarantees would be backed by the Jurisdiction's future HOME allocations. Jurisdictions could provide guarantees in an aggregate amount up to five times their annual allocation. No HOME funds would be drawn down unless the loan goes into default. Fannie Mae and Freddie Mac could be encouraged to buy permanent loans guaranteed under this authority. This option would require federal loan guarantee authority.

Under this option a PJ would issue a loan guarantee to a project lender. The guarantee would be backed by a stand-by loan agreement between the PJ and

HUD. Under the agreement, HUD would cover any claims on the guarantee by issuing notes on behalf of the PJ that would be repaid, with interest, from the Jurisdiction's future HOME allocations. This could be done over a period of time up to thirty years. However, no funds would be drawn down unless the loan goes into default. If a call is made on the stand-by loan agreement, the repayments to HUD would be subject to HOME's matching requirements. In addition, fulfillment of a guarantee obligation would not be treated as a refinancing, nor would it be subject to the prohibition against investing HOME funds in a project prior to the termination of the use restrictions.

- b) PJs could borrow against their future HOME allocations to provide an up-front capital subsidy (equity contribution) to reduce the rents on a multi-family project to make them affordable. Under this approach HUD would guarantee notes issued by a PJ which would be repaid in annual increments from the Jurisdiction's future HOME allocations. Used in this fashion a sufficient amount of HOME funds could be aggregated to undertake either large-scale projects or engage in substantial production of units. This option would require federal guarantee authority.

**5) Many of your examples of HOME fund usage are single family programs. Will communities put HOME funds to acquire properties under a reformed multifamily property disposition program?**

With the passage of the "Multifamily Housing Property Disposition Reform Act of 1994", which included legislative provisions, such as the changes to the match requirement for new construction and the simplification of the income targeting; the improvements included in the Fifth Interim Rule, such as the modifications in match eligibility, allowance for floating units, and the relaxation of rental housing monitoring; and, the permanent extension of the low income housing tax credit. We believe that communities nationwide will continue to use a substantial amount of HOME funds for multifamily housing and rental housing and may increase the level of activity to some extent.

Currently, consistent with the primary intent of the HOME program, a majority of the funds are already used for rental housing projects - 60.4%, according to the latest HUD figures for FY92 HOME funds. In addition, PJs are showing a commitment rate of 20.5 % for new construction activities, a substantial increase from earlier statistics. These figures, together with the figure that shows that only 3.0% of the funds are going to tenant-based rental assistance, indicates that the HOME program is providing sufficient funding in the construction or rehabilitation of rental projects so as not to require additional subsidies. This is an especially important fact given that 88.5 % of the rental units are going to tenants at or below 50% of median income.

With the recent legislative and regulatory changes to the HOME program and the low income tax credit program, some communities may increase the level of multifamily housing activity, new construction and property acquisition, particularly since larger projects, HOME funded or otherwise, often require the use of low-income tax credits as well, to make them work. However, there is not likely to be a substantial increase in multifamily activities since communities are already using a majority of their HOME funds for such projects. In addition, communities continue to need increased funding for multifamily, large scale construction or rehabilitation projects. It is also important to remember that one of the best features of the HOME program is its flexibility to serve the housing needs of a particular community, be those needs for rental property or first-time homebuyer assistance.

NCDA and NAHRO members have expressed interest in using the HOME program along with other programs to acquire properties under the reformed multifamily property disposition program. But problems have been identified in the site and neighborhood standards, which restrict use of HOME and other federal dollars in "impacted areas", because this restriction limits the government's ability to use HOME and other programs to invest in distressed areas through the property disposition program and other similar efforts. These problems aside, some communities are already acquiring HUD properties and are anxious to do more under the reformed multifamily property disposition program. In fact, NCDA has been working with Assistant Secretary Nicolas Retsinas and his staff to help make all of FHA's programs more accessible and desirable to local governments.

**6. Can you comment on CHDO activities. Are PJ's still having difficulties in identifying CHDO's?**

The activities of the Community Housing Development Organizations (CHDOs) under the HOME program got off to a slow start, due partially to the longer development time of a CHDO owned or managed project and the capacity building required for new and existing CHDOs. However, the activity level has picked-up substantially and according to HUD, 16 percent of the FY92 funds allocated for HOME are currently reserved for CHDOs, and 18 percent of the total have actually been committed to CHDO projects.

These figures exceed the 15 percent for CHDO's required by law and a break down of the numbers below show that in certain HOME activity areas CHDOs are being used well beyond the required amount. For example:

The amount of HOME funds Committed to CHDOs for Rental Activities is :	25 Percent
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The amount of HOME funds Committed to CHDOs for First-Time Homebuyer Programs is:	27 Percent
The amount of HOME funds Committed to CHDOs for New Construction is:	25 Percent
The amount of HOME funds Committed to CHDOs for Rehab. is:	17 Percent

NCDA and NAHRO have noted an ongoing problem in several parts of the country with identifying CHDOs capable of operating the HOME program and problems with capable nonprofit organizations having difficulty transforming themselves to meet the definition of CHDO required in the HOME program. CHDOs are more prevalent in the east and California, however communities in the south, southwest and west are having more difficulty identifying and training CHDOs. Due to the fact that CHDO development is a lengthy process, particularly in areas where there is no previous history of housing nonprofits, many PJs are only now beginning to allocate their CHDO funds. More CHDO training is still needed and we encourage Congress to continue to support this technical assistance and training activity.

Although the statistics denote that only 16 percent of HOME funds are being spent by CHDOs, it is somewhat misleading since most PJs are operating some or all of their HOME program through nonprofit organizations, which do not necessarily qualify as a CHDO. NCDA and NAHRO believe that if it were possible to identify the total dollar or unit amount going to nonprofits, who do not necessarily qualify as CHDOs, a significantly different story would be told about public-private partnerships under the HOME program.

#### **7. How often are HOME funds being used for tenant based rental assistance?**

According to HUD statistics, as of March 31, 1994 only 3 percent of the HOME funding is being used for tenant-based rental assistance. Many PJs made a policy decision not to use HOME funds for tenant-based rental assistance. Some indicated that the tenant-based rental assistance requirements were onerous, although HUD has made some attempts to improve the requirements. Others were concerned about the sustainability of rental subsidies after the two years, and did not want to design a program which depended upon on-going rent subsidies. Still others did not want to duplicate an already existing system, e.g. the Section 8 rental assistance program. Frequently, PJs are using their tenant-based rental assistance to provide short-term emergency assistance for prevention of homelessness. This meets a need not met through the Section 8 program or through the McKinney programs. Many PJs wanted to "leave rental assistance to



the Section 8 program and free-up HOME funds to do the greatly needed construction and rehabilitation work." This is once again an example of HOME flexibility in allowing those communities with rental assistance needs to use HOME for rent subsidies, while allowing other PJ's to use the program for different housing needs.

The low tenant-based rental assistance figures mean that the 60.4 percent that has been committed to rental projects has been able in the significant majority of cases to bring the cost of the project to a level so as not to require on-going assistance. This is an important aspect of the value of the program.

## **8. Examples of Regulatory "over-interpretation".**

Certainly with the passage of the "Multifamily Housing Property Disposition Reform Act of 1994" and the publication of the Fifth Interim rule, both of which reflect legislative and regulatory recommendations made last year by NCDA, NAHRO and the other national organizations representing local and state governments, the HOME program has become more manageable. We have included a list of possible regulatory changes and will be submitting, with several other national organizations some additional legislative recommendations for H.R. 3838. Further recommendations may be forth coming in the next week. Some of these regulatory recommendations identify those areas which may require reaffirmation of Congressional intent. They are so noted with an asterisk.

### Additional comments regarding the Recommended Change to the Threshold for Participation

As stated in the testimony of March 16, NCDA and NAHRO recommend that the HOME threshold for participating jurisdictions (PJs) be returned to \$500,000 with existing PJs held harmless. The HOME threshold was changed from \$500,000 to \$335,000 for direct local funding when the FY93 appropriation was reduced to \$1.0 billion (the FY92 appropriation was \$1.5 billion). With the lower threshold, more communities qualified for direct funding and more consortia came into the program. Accordingly, local jurisdictions which qualified at the \$500,000 threshold received less funding.

In FY94, although HOME funding was increased to \$1.275 billion, the threshold of \$335,000 remained in effect because the appropriation was below \$1.5 billion. Again, more communities and consortia qualified for direct funding and local jurisdictions which would qualify at the original \$500,000 threshold received less funding.

As more and more communities qualify for the limited amount of HOME funds, other local governments will receive drastic cuts in funding. If Congress

appropriates the Administration's FY95 budget request of \$1 billion for HOME, some cities may receive about half of what they received in FY92. A return to the original threshold of \$500,000 would slow down this process, at the same time, holding harmless those communities which have already qualified at the lower threshold. We urge you to reconsider this provision.

## **RESPONSE TO REPRESENTATIVE MICHAEL N. CASTLE**

**1) The HUD Inspector General has reported that some communities receiving CDBG grants are not funding projects that truly benefit low and moderate income persons. Do you think it is a problem and how can we ensure that these funds go for true community development projects and are not just used as some nice extra money for cities and local governments?**

We do not believe that the problem is wide-spread. Especially in economic development activities, it has been identified by GAO that the HUD Inspector General (IG) has been overzealous in their pursuit of local governments and with an auditor's hindsight is finding problems with recipients and results that the local government could not have anticipated in the planning of the project.

Additionally, the citizen participation guidelines help to ensure that local residents are able to weigh in on decisions regarding the funding of local projects. There is an existing requirement that 70% of CDBG programs funds benefit low and moderate income persons.

Our members tell us that increased targeting will eliminate the ability to do true community development and will distort many local CDBG programs toward more direct benefit activities like housing rehab, and make it virtually impossible to carry out such "area-wide" activities as public improvements, infrastructure projects, community centers, and commercial revitalization -- activities which contribute to reviving distressed areas while also stabilizing declining neighborhoods.

**2) What is your view on the HUD application and decision process for CDBG grants? How can it be improved? Should HUD combine the CDBG and HOME application process?**

Currently HUD is completing work on a Consolidated Plan and Submission Document which will pertain to the HOME and CDBG application process, the applications for the Emergency Shelter Grant (ESG) program and the Housing Opportunities for Persons With AIDS (HOPWA) program, as well as the Comprehensive Housing Affordability Strategy (CHAS) and the non-housing Community Development Plan. The Consolidated Plan and Submission is designed to replace the current Community Planning and Development (CPD) planning and application requirements with a single submission.

NCDA and NAHRO are both supportive of the development of a more efficient and streamlined submission and the ultimate reduction of paperwork redundancy and administration for local governments. However, we are still concerned with the

process in which HUD developed the Consolidated Plan and Submission and the increased level of work the "consolidation" may actually cause. We encourage Congress to look very carefully at HUD's proposed consolidation to assess the value of the proposal and the appropriateness of its timing. We are also concerned about the proposal to address homelessness and fair housing in this same document. A document meant to be everything to everyone usually turns out to serve no one well. If such a broad change is taken with the consolidated document than further development and consideration is critical.

**3) Another criticism of the CDBG program is that it is very slow in spending funds. In 1993 there was a \$3 billion backlog in unspent and unallocated funds. How can this problem be solved?**

Congress and the Administration need to remember that CDBG is intended as a community development program, which by its nature means that the funds generally will not be 100% spent within 12 months of appropriation. The process of identifying worthwhile projects, documenting their appropriateness and who the recipients will be all take time. Additionally the citizen participation process designed to set local priorities takes time as well.

A substantial amount of CDBG program dollars fund projects which require long-term construction. The program's spendout figures reflect the nature of these projects, which require substantial amounts of time to complete. In addition, the program only permits funds to be drawn down as work progresses. Thus there is, of necessity, a pipeline of funds awaiting expenditure for projects already underway. In any event, the CDBG program does not permit a grantee to have more than 1.5 times its annual allocation in the pipeline. This 1.5 requirement reflects the 18 months needed to complete an average project.

The funds currently in the pipeline cannot be accelerated because most of them have already been obligated by local communities for specific projects. Additionally, local and federal fiscal years are not necessarily synchronized. This means that localities frequently do not make funding decisions for the CDBG program until more than six months into federal fiscal year and do not receive their funds until the fourth quarter of the federal fiscal year. HUD has pledged to get CDBG funds to the local level before the start of the local program year, which thereby permitting better planning and utilization of the program at the local level.

In terms of outlays, the amount in the pipeline is quite small. For fiscal years 1990-1992, new outlays totalled approximately 93% of the appropriations for each of those years.

**4) Do you have any views on the CDBG allocation formula? Is it fair**



**or should it be changed and in what manner?**

Congress mandated a study of the "adequacy, effectiveness and equity" of the existing formula. A report was due to Congress on July 1, 1993. To date, HUD has not forwarded its recommendation to Congress. NCDA has formed a Formula Working Group Committee to respond to the HUD recommendations when they are released. At this time, we feel it is premature to comment on the formula issue and will be happy to provide you with the NCDA organizational position, once HUD has released its recommendations.

NAHRO's primary concern with the CDBG formula is what the impact will be of using 1990 Census Data. Communities that will suffer a loss of funding under the new data need a two year partial "hold harmless" to adjust their activities. Without such a phasing in of the changes, communities will not have time to identify other resources and adjust their activities and their needy residents will be severely impacted. NCDA supports the hold harmless provision.

**5) Secretary Cisneros has proposed a LIFT program. This program would use \$200 million of CDBG funds for a competitive grant program to provide subsidies to leverage private investment in private investment in distressed neighborhoods. Is this type of program better left to state and local governments? How do you view the LIFT proposal?**

While NCDA and NAHRO applauds the Administration's effort to address a problem affecting many of our urban communities with an infusion of targeted and expanded economic development resources, we strongly oppose taking those funds from CDBG for this purpose. HUD notes in it's budget documents that, "CDBG remains the most flexible community building tool to Mayors and Governors." We want to retain that flexibility by not earmarking or further segmenting CDBG. This concern was addressed by HUD staff in a meeting with national public interest groups. The groups were advised that while HUD is moving forward with the LIFT program, the funds will **not** come out of CDBG, however HUD has not yet indicated from where the funding will come. NAHRO opposes the proposal that 75% of the LIFT funding be distributed at the Secretary's discretion. This seems contrary to HUD's articulated philosophy that they want to foster decisions-making at the local level according to locally generated planning. NCDA has not developed a position on the specific elements of the proposal. We will advise members of the Subcommittee upon adoption of such a position.

**6) Do you support the proposal to make the matching requirement for HOME funds a flat 25 percent for state and local recipients?**

NCDA and NAHRO support a flattening of the match requirement to 25 percent overall. Such a provision would eliminate the previous bias against new

construction and will therefore give communities the ability to choose their HOME program activities based on local housing needs.

**7) What types of programs have you used HOME funding for?**

Most Participating Jurisdictions have used their HOME funds for an assortment of the eligible activities, including: rental rehabilitation, first-time homebuyer programs, owner-occupied rehabilitation, new construction, land acquisition and tenant-based rental assistance. The national figures show:

<u>Activity Type</u>	
Rehabilitation	70.0%
New Construction	20.5%
Acquisition	6.5%
Rental Assistance	3.0%

<u>Project Type</u>	
Rental	60.4%
Owner-Occupied Rehabilitation	25.8%
First-Time Homebuyer	13.8%

The HOME program has also exceeded the benefit targeting guidelines dictated by Congress in the original HOME legislation. According to the report issued by HUD on March 31, 1994, over 56.7% of the HOME funds expended for rental projects has gone to serve those persons at 0-30 percent of the area median income and 31.8 percent for those persons whose income falls between 31 and 50 percent of the area median. In terms of homeowner activity, the benefits are more evenly distributed with 26.4 percent of the funds serving those persons between 31-50 percent of the area median and 26 percent serving those between 0-30 percent of the area median income.

**8) Other than an increase in funding, how can the HOME program be improved to make it responsive to state and local needs?**

Certainly with the passage of the "Multifamily Housing Property Disposition Reform Act of 1994" and the publication of the Fifth Interim rule, both of which reflect recommendations made last year by NCDA, NAHRO and the other national organizations representing local and state governments, the HOME program has become more manageable. Our recommendation would be further simplification of the regulations as well as some additional technical changes to the legislation. We have included a list of possible regulatory changes and will be submitting, with several other national organizations, some additional legislative recommendations for H.R. 3838. We also suggest that similar to the effort being undertaken in the

Empowerment Zone and Enterprise Community effort, as part of the consolidated plan process HUD should permit local jurisdictions to identify regulatory waivers that would improve their ability to respond to local needs.

Again, NCDA and NAHRO appreciate the opportunity to respond in detail to the concerns of members of the Subcommittee.

Sincerely,

A handwritten signature in cursive script that reads "Daniel P. Henson, III".

Daniel P. Henson, III  
Commissioner  
Housing and Community Development  
Baltimore, Maryland

Enclosures

### Regulatory Changes to the HOME Program:

1. **HOME Activity Delivery Costs:** Conform the treatment of activity delivery costs under the HOME program to that under the CDBG program, i.e., allow them to be charged to the eligible activity with which they are associated. In addition, include the cost of monitoring project compliance as an eligible delivery cost.
- \* 2. **Definition of HOME Project:** Permit Participating Jurisdictions (PJs) the flexibility to define what constitutes a HOME project rather than limiting a project to site(s) or building(s) within a four block area.
3. **Use of HOME Funds for Initial Project Operating Reserves:** Remove the restriction in the regulations which limits funding for a projects operating deficit reserve during rent-up to 18 months. Instead of an arbitrary time limit, PJs should be required to maintain evidence of an agreement with the mortgage lender that funding for such a reserve, once no longer needed, will be returned for use in HOME-eligible activities. This would facilitate use of HOME funds in risk-sharing arrangements by PJs. Not only should this be permitted for new construction and sub rehab projects, but for mod rehab projects as well.
4. **Increase in FHA Mortgage Insurance Limits:** Immediately publish the 20 percent increase in the 221(d)(3) multifamily mortgage insurance limits (which establishes the maximum HOME subsidy limit) authorized by the 1992 amendments in order to allow use of the higher limits for HOME-assisted rental housing. This increase is critical to making projects feasible in high cost areas.
- \* 5. **Equity Investments for Project Financial Work-outs:** Clarify that equity investments made as part of the financial work-out of an existing low-income housing project are an eligible use of HOME funds. The current regulations require the property to be acquired, rehabed, or constructed in order for HOME funds to be used. This is an unnecessary requirement and may undermine use of HOME funds to preserve affordable housing where it is appropriate.
- \* 6. **C/MI System Projects:** Permit PJs to establish as projects with the Cash and Management Information System (C/MIS) homeownership, including rehabilitation, programs rather than a separate project for each household assisted.
7. **Pre-environmental Clearance Cost -** Make pre-environmental clearance activity costs reimbursable activity delivery costs in order to permit PJs to undertake them. Under current HUD interpretation, costs associated with pre-environmental clearance (NEPA) activities may not be reimbursable for specific projects. Only costs associated with post-NEPA clearance would be reimbursable. Therefore such costs as appraisals, environmental (lead/asbestos) inspections, energy calculations, architects,



civil engineers, outside consultants to do market studies cannot be charged to the project, if the NEPA clearance has not been approved. PJs, developers and nonprofits depend on these activities to move forward on projects; however, if such expenses are not reimbursable, then prospective projects will not be pursued.

**8. Additional Forms of Matching Contributions:** In the event that the current law matching requirements are not changed, clarify that the difference between acquisition cost and the appraised value of land or other real property, acquired with or without federal resources, is eligible match. The regulations currently allow such a differential to count in the case of properties acquired from RTC for affordable housing. Also consider owner contributions as match, in terms of land, owner investment or private debt.

**9. Projects out of Compliance:** Clarify that, in the event that a project which a PJ funds falls out of compliance with the requirements of HOME, the jurisdiction shall first seek to return the project to compliance, than if necessary make reasonable efforts to see that the project developer repays the HOME subsidy; but in the event that the developer/owner cannot repay the subsidy, permit HUD to reduce future grants but not require the jurisdiction to repay such subsidy to its HOME trust fund or to HUD.

**10. Housing Quality Standards and HOME-Assisted Housing:** Exempt housing units receiving \$5,000 or less in HOME funds for weatherization, emergency assistance, home repair, or accessibility from Section 8 Housing Quality Standards. This would permit PJs to address emergency or life threatening problems, or prevent further deterioration of a unit.

**11. Environmental Review:** Provide an exemption from the requirements for rehab or one to four units and all owner-occupied rental and homeownership projects and provide flexibility by permitting one environmental review for projects receiving both HOME and CDBG funds. Where the HOME program determines a project to be rehab for environmental review purposes, allow that determination to supersede that of HUD's environmental review staff.

**12. CHDO Operating Funds:** Clarify that, at the discretion of the PJ, the up to 5 percent of its allocation which may be made available for CHDO operating assistance may be taken from within or outside the CHDO set-aside.

**13. Drawdown of HOME Funds:** Increase from 15 to 30 days the time frame within which funds drawn down must be spent. The 15-day time limit is particularly burdensome for urban counties and consortia which deal with multiple subrecipients.

**14. Definition of Net Proceeds for Homeownership:** Clarify that the definition of net proceeds includes improvements made to the property by the owner.

**15. Spending HOME Funds:** Clarify that PJs may commit FY93 HOME funds prior to having fully committed FY92 funds in order to permit them to take advantage of

opportunities such as the acquisition of land for affordable housing. Also eliminate the provision that program income must be spent before further funds are drawn down for the same reasoning.

16. **Recognition of Match:** Should the existing matching requirement not be changed as recommended above, allow PJs to begin accruing match for HOME eligible activities as soon as they have signed their FY93/FY94 HOME agreements, rather than waiting until they begin drawing down their FY93/FY94 funds.

17. **C/MI System For Tenant Assistance:** Eliminate the requirement that specific information (social security number, amount of tenant contribution, amount of subsidy) be provided up front on each tenant to be assisted with HOME funds, requiring instead that such information be contained in the completion report. PJs should be required to indicate up front the number of tenants expected to be assisted and the total amount of subsidy expected to be provided.

18. **C/MI System and CHDOs:** Allow CHDO projects to be set-up in the C/MIS (therefore show them as a commitment) prior to complete CHDO identification of all financial sources and/or completion of approval/filing as a CHDO. This would enable PJs to commit their CHDO monies faster rather than waiting for the lengthy CHDO approval process.

19. **Limitation on Use of HOME With FHA Mortgage Insurance:** Remove the requirement that the HOME affordability period corresponds to the term of an FHA insured mortgage when HOME funds are used in connection with housing financed with a mortgage insured by HUD. HOME affordability requirements should prevail.

20. **Property Value Limits:** Allow local jurisdictions to base property value limits on the area median income as provided in the statute.

\* 21. **Definition of Affordable for Subsequent Low-Income Borrower:** Eliminate the regulatory requirement that first-time homeownership units be made affordable to the subsequent low-income buyer at a price that is 30% of 75% of median income. The statute requires that the unit be affordable but does not specify the actual amount. PJs should be given the option to define what is affordable to another low-income purchaser.

\* 22. **Definition of SRO under HOME:** Conform HOME's definition of Single Room Occupancy (SRO) projects to that used in other federal programs such as the McKinney Homeless and Shelter Plus Care programs, thus allowing HOME to be used in combination with these programs.

23. **Flexibility with Davis-Bacon:** Eliminate Davis-Bacon requirements for HOME projects of 12 units or more, but scheduled to be sold to individuals as separate units.

**Testimony of The Honorable Maude Ford Lee  
Commissioner, Palm Beach County**

**Before the**

**House Housing and Community Development  
Subcommittee**

**The Honorable Henry Gonzalez, Chairman**

Testimony of The Honorable Maude Ford Lee  
Commissioner, Palm Beach County

Mr. Chairman and members, I first want to thank Congressman Alcee Hastings for his commitment and dedication to this much needed project. I would also like to thank the other three members of the Palm Beach County Delegation, Congressman Clay Shaw, Congressman Harry Johnston, and Congressman Tom Lewis who have recognized the importance of this project and have supported the earmarking of funds to renovate Spanish Courts.

Spanish Courts is located in the City of Riviera Beach, Palm Beach County, Florida. It is directly north of the Port of Palm Beach on U.S. Highway 1. Palm Beach County has a population of approximately 900,000 population, with approximately 29,000 people living in the City of Riviera Beach.

The City of Riviera Beach has suffered substantial economic and social set backs due to the westward expansion and urban sprawl, the closing of a major employer in the city, the closing of all major grocery stores and several banking institutions. This has resulted in slum and blight, economic disinvestment, joblessness, and an increase in social problems in this area. The current poverty level in this lagging region is approximately thirty percent (30%).

Spanish Courts is a historic site built in 1928 and is one of the best remaining examples of the Florida Spanish styled "motor court" architecture. It is located in the middle of a proposed redevelopment project which is presently being planned by a Tri-Party Committee of the City of Riviera Beach, the Port of Palm Beach, and Palm Beach County. This redevelopment project is expected to be a public/private partnership which will attract an investment of \$250-500 million to revitalize the primary local, national, and international commerce area of Palm Beach County. This project will provide the impetus to begin revitalization of this area.

This request is to renovate Spanish Courts, a 26 cottage site for retail, commercial, and business incubation. Palm Beach County has budgeted \$550,000 of Community Development funds to support renovation.

We are requesting \$550,000 to fund the outstanding amount necessary to complete this \$1.1 million project.



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Management of this project will be implemented by the Business, Economic Development & Revitalization Corporation (BEDR pronounced "better"), a not-for-profit, community economic development organization which developed and proposed the Spanish Courts project.

BEDR is presently working with community banks and the Small Business Administration to provide sufficient incubation funds for potential business owners.

In addition, Palm Beach County is planning a business incubation center in this neighborhood to help insure that the necessary support systems are available for new entrepreneurs.

Spanish Courts is expected to attract 26 businesses and employ over 125 persons. The City of Riviera Beach and the Private Industry Council will work cooperatively to assist in the recruitment of low to moderate income individuals for the jobs created by these businesses.

The Spanish Courts project will 1) provide for the creation and retention of jobs in this lagging area, 2) foster small business development and incubation, 3) eliminate slum and blight and provide for city revitalization and urban renewal, and, 4) preserve a significant historical landmark.

Spanish Courts will be the catalyst for a major coastal and regional redevelopment project in Palm Beach County.

With an overall strategic plan, the City of Riviera Beach, Palm Beach County, and the Port of Palm Beach are in the process of applying for incentive programs for this area to ensure maximum leverage of revenues and resources. These programs include the following:

1. Federal Enterprise Program
  - Urban application already in process.
2. State Enterprise Area
  - Re-authorization by the State has recently been approved.
3. Free Trade Zone
  - Plans are in process to expand area designation.
4. Riviera Beach Community Redevelopment Agency
  - Commercial district revitalization plan is in process of being implemented.

Mr. Chairman, thank you again for this opportunity to provide testimony on behalf of this worthy economic revitalization project.



## ASSOCIATION OF LOCAL HOUSING FINANCE AGENCIES

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**STATEMENT  
BY THE**

## ASSOCIATION OF LOCAL HOUSING FINANCE AGENCIES

## TO THE

**SUBCOMMITTEE ON HOUSING AND COMMUNITY  
DEVELOPMENT  
COMMITTEE IN BANKING FINANCE AND URBAN AFFAIRS  
U.S. HOUSE OF REPRESENTATIVES**

**ON H.R. 3838, "THE HOUSING AND COMMUNITY DEVELOPMENT  
ACT OF 1994"**

**MARCH 16, 1994**

The Association of Local Housing Finance Agencies (ALHFA) appreciates the opportunity to provide its views and recommendations to the Subcommittee on Housing and Community Development with respect to reauthorization of the nation's housing and community development laws.

By way of background, ALHFA is the national association of professionals working to finance affordable housing for low- and moderate- income people at the local level. Its members are city and county agencies which finance, using a variety of sources – tax-exempt and taxable bonds, HOME and CDBG funds, Low-Income Housing Tax Credits, their own and state funds – homeownership and rental housing opportunities for low- and moderate- income households. ALHFA played a key role in helping this Subcommittee and the Congress enact HOME, the centerpiece of the Cranston-Gonzalez National Affordable Housing Act of 1990. ALHFA has also played a key role in helping convince Congress to enact important incentives within the Internal Revenue Code, which in combination with programs under the jurisdiction of this Subcommittee, serve to expand affordable housing opportunities. Just last summer, ALHFA and others succeeded in achieving Congressional enactment of permanent extensions of the Mortgage Revenue Bond and Low-Income Housing Tax Credit programs in the Omnibus Budget Reconciliation Act of 1993.

At the outset ALHFA wishes to commend Chairman Gonzalez for introducing H.R.3838, the "Housing and Community Development Act of 1994." This legislation is a very useful beginning point for the Subcommittee's deliberations. There are several provisions in the legislation with respect to HOME, CDBG, Section 8 and the FHA insurance programs on which we wish to comment.

#### HOME Investment Partnerships Program

Enacted as the centerpiece of the 1990 National Affordable Housing Act, local housing finance agencies have struggled in its implementation. We recognized in 1990 that certain compromises were necessary to achieve enactment over the objections of an Administration hostile to it. We accepted this as the price for getting the framework for a new, flexible, formula-driven source of federal housing funds. In 1992 we came back to the Congress with a series of legislative changes designed to ease program implementation. This Subcommittee and the Congress were sympathetic to, and accepted, many of our recommendations. Those changes were largely implemented by the Clinton Administration when it took office in January, 1993. Given the fundamental nature and scope of those legislative changes, implementation of the HOME program really began in January, 1993.

Since then the progress in using the funds, and the uses to which they are being put, is very impressive. According to HUD, as of the end of February, 60 percent of the \$2.5 billion appropriated in FY 1992 and 1993 funds are being used for rental housing and 39 percent are being used for ownership housing. Of these amounts, 19 percent is supporting new housing construction, 71.7 percent is supporting rehabilitation, in keeping with the statute's prescription that rehabilitation be undertaken when it's the most cost-effective, 6 percent is being used for acquisition, and 2.9 percent is being used for tenant based rental assistance. In addition, \$19,442 of HOME funds per unit are used for new construction, and \$17,140 are used for rehabilitation, both of which are well below the maximum allowable subsidy limits. It is clear in our view that HOME is meeting Congressional intent of expanding the supply of affordable housing with an overwhelming majority of funds spent on new construction and rehabilitation.

ALHFA Statement  
 March 16, 1994  
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There is more good news in the deep targeting of HOME funds, well beyond the 60 percent for rental housing and 80 percent for ownership housing required by the statute. Again according to HUD, at the end of February, 43.2 percent of the funds being used for rental housing are benefitting those with incomes from 0-30 percent of median income, 23.7 percent for those with incomes from 31-50 percent of median, 7.2 percent for those from 51-60 percent, and 2.1 percent for those from 61-80 percent. For homeownership, 78.7 percent of the funds are benefitting those below 60 percent of median, while 21.3 percent are benefitting those from 61-80 percent of median.

HUD's February statistics also indicate that 61.4 percent of the FY 1992 and 9 percent of the FY 1993 HOME funds have been committed. These figures in our view are misleading. HUD considers HOME funds committed when they have been entered in the Cash/Management Information system. In many cases jurisdictions, despite having their HOME funds under a legally binding contract, have not entered them into the C/MI system. For example, under current procedures funds used for tenant assistance or homeowner rehabilitation cannot be entered into the system until all of the individual households to be assisted have been identified. In addition, once a new construction project is entered into the system, construction must begin within 12 months. There are cases in which when construction cannot begin in this time frame, and the project is kicked out of the system. There are other mechanical problems attendant to entering data into the system, which HUD has committed to fixing. This notwithstanding, ALHFA and other national organizations representing local and state government have approached HUD with a recommendation that the definition of commitment be changed to reflect reality to conform to the definition of commitment used in the CDBG program, i.e. that of a legally binding contract between a Participating Jurisdiction and a subrecipient. HUD is receptive to this change and has proposed including it in the pending Fifth Interim Rule now at the Office of Management and Budget for its concurrence. We raise this issue not because we are seeking legislative action, but rather to clarify for the Subcommittee that the current definition of commitment may lead some to conclude that Participating Jurisdictions cannot fully use the funds appropriated. This is emphatically not the case. In fact, with a change in the definition of commitment it will be clear that Participating Jurisdictions are fully utilizing their allocations. This is a very significant development given the fact that the program really only got underway in 1993 after the needed amendments made by the Congress in the Housing and Community Development Act of 1992 were implemented, and the program was warmly embraced by the new HUD Secretary, Henry Cisneros. We here reiterate our appreciation for the Secretary's efforts to smooth implementation of the program.

Mr. Chairman, we are pleased to support the two year reauthorization of HOME at \$2.23 billion for FY 1995 and \$2.3 billion for FY 1996. A multiyear reauthorization of the program is essential to provide a measure of predictability with respect to future year's funding. We feel compelled to indicate our disappointment in the Administration's budget request of \$1 billion for HOME, a \$275 million decrease over the FY 1994 level. We strongly oppose this proposal. Just as HOME is realizing its potential, its funding should not decrease, but rather, it should increase.

We also support the technical refinements to HOME included in H.R.3838 which were originally recommended by ALHFA and several other national organizations, such as leveling the nonfederal



## ALHFA Statement

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matching requirement to 25 percent, deleting the requirement that homebuyers assisted with HOME funds be first-time homebuyers, requiring instead that they be low-income homebuyers, allowing recaptured funds originally used for homeownership to be used for any HOME-eligible activity, eliminating the separate audit requirement for HOME, and allowing states to delegate environmental review to those communities to which they allocated HOME funds. We also support the clarification that permits Community Development Block Grant funds to be used for administration of housing activities under HOME as well as the correction to the 1992 Act which places CDBG assistance for housing within the 20 percent administrative cap. Finally, we support the provision that makes any legislative changes to HOME apply to amounts made available or unobligated upon the date of enactment.

We do, however, have a concern with respect to a couple of provisions in H.R.3838, including the 25 percent set-aside off the top for the National Community Development Initiative and the requirement that the accounting of program benefit be kept by units assisted rather than funds spent. This change may result in more targeting than is currently required under current law. With respect to CDI, it was our understanding that when authorized in 1993 the program was to be a one-time appropriation to leverage \$75 million in foundation funding to build capacity within non-profit entities. While we support this goal, we believe the current set-aside of \$14 million within HOME can achieve this purpose.

There are several other recommendations for change in the HOME program not in H.R.3838 which we hope the Subcommittee will add during markup. These proposals are consistent with Congressional intent in enacting HOME, i.e. attracting private sector investment, leveraging scarce federal resources, and providing credit enhancement to supplement existing, but insufficient, sources.

First, the statute is silent on whether HOME funds can be used to guarantee loans made by private lenders in support of HOME-assisted housing. Accordingly, HUD has taken the position that this is not a permissible use of the funds. We urge the Subcommittee to include in H.R. 3838 a provision explicitly authorizing Participating Jurisdictions to use HOME funds to provide a guarantee for all or a portion of a short-term loan to support HOME-assisted single and multifamily affordable housing.

Under this proposal, a Participating Jurisdiction would agree to guarantee all or some portion of a loan made by a lender for a HOME-assisted single or multifamily project. The loan could be for up to five years and could cover construction in the case of single family housing (to replace savings and loans which formerly made such loans), or construction, rent-up and a year or two of occupancy for multifamily rental housing. The guarantee would constitute a pledge of some or all of the Participating Jurisdiction's current year allocation. The amount of the guarantee could decline over the term of the loan. The Participating Jurisdiction would not draw down the funds for the guarantee, but it would reserve the amount in its HOME Investment Trust Fund. Only in the event of a default would the funds be drawn down. Fannie Mae and Freddie Mac could be encouraged to buy the permanent loans which take out these loans.

Second, the statute should be amended to create the equivalent of a CDBG Section 108 loan guarantee program within HOME. The program could work either of two ways:

1. Participating Jurisdictions could provide guarantees for loans on HOME-assisted single family and multifamily housing. This loan guarantee mechanism would be sufficiently flexible to cover construction and permanent financing, homeownership and rental housing, taxable and tax-exempt financing, partial and full coverage against losses, and short- and long-term guarantees. The guarantees would be backed by the Jurisdiction's future HOME allocations. Jurisdictions could provide guarantees in an aggregate amount up to five times their annual HOME allocation. No HOME funds would be drawn down unless the loan goes into default. Fannie Mae and Freddie Mac could be encouraged to buy permanent loans guaranteed under this authority. This option would require federal loan guarantee authority.

Under this option a Participating Jurisdiction would issue a loan guarantee to a project lender. The guarantee would be backed by a stand-by loan agreement between the Participating Jurisdiction and HUD. Under the stand-by agreement, HUD would agree to cover any claims on the guarantee by issuing notes on behalf of the Participating Jurisdiction that would be repaid, with interest, from the Jurisdiction's future HOME allocations. This could be done over a period of time up to thirty years. However, no funds would be drawn down unless the loan goes into default. If a call is made on the stand-by loan agreement, the repayments to HUD would be subject to HOME's matching requirements. In addition, fulfillment of a guarantee obligation would not be treated as a refinancing, nor would it be subject to the prohibition against investing HOME funds in a project prior to the termination of the use restrictions.

2. Participating Jurisdictions could borrow against their future HOME allocations to provide an up-front capital subsidy (equity contribution) to reduce the rents on a multifamily project to make them affordable. Under this approach HUD would guarantee notes issued by a Participating Jurisdiction which would be repaid in annual increments from the Jurisdiction's future HOME allocations. Used in this fashion a sufficient amount of HOME funds could be aggregated to undertake either large-scale projects or engage in substantial production of units. This option would require federal guarantee authority.

Here is an example of how this option would work in Fairfax County, Virginia. Typically, a new unit of housing in the County produced under the inclusionary zoning ordinance is a modest townhouse unit which costs approximately \$90,000 to build. The County receives \$1.5 million in HOME funds. Using \$25,000 per unit of HOME funds to fill a financing gap, the County could provide 60 units annually which would rent for between \$681 and \$864 (less utilities) to a family of four at 50-60 percent of median income.

In the County's Working Singles SRO development of 20 efficiency apartments, which was built using HOME (50 percent) and CDBG Section 108 funds (50 percent), rents are \$364 (including utilities). The facility has no debt, and the units rent to a person at a minimum income of \$13,525 per year (30 percent of the median income). The total cost of the project was \$1 million (\$50,000 per unit).

## ALHFA Statement

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If the rent were increased for units in the Working Singles development to \$425 (including utilities) these units would be affordable to persons at 40 percent of the median income. The increased rent would yield \$61 per month/per unit for debt service. This translates into a \$184,000 mortgage, 18 percent of the total project cost. Thus, a capital write down of \$816,000 would be necessary to provide 20 efficiency apartments at \$40,800 per unit that rent to households at 40 percent of the median income. Therefore, in a given year at best \$1.5 million of HOME could provide 37 SRO units at \$40,800 per unit equity. Thus, in order to avoid an ongoing rental subsidy, a project such as this must have a large equity payment up-front.

However, if, instead of using HOME funds for a direct equity contribution in individual projects, they were used to pay annual debt service as they do in the CDBG Section 108 program, many more units could be produced. The CDBG Section 108 program allows jurisdictions to borrow up to five times their annual entitlement amount, with future year's CDBG funds pledged for annual repayments. If Fairfax County could borrow five times its annual HOME allocation over a 20 year period at 7 percent, this would yield \$7.425 million (\$7.5 million less one percent in financing costs) in available equity. In the townhouse example above, this would provide approximately 297 units at \$25,000 per unit, depending on the number of bedrooms. In the SRO example, approximately 182 units at \$40,800 per unit in equity could be produced. Debt service costs would total \$400,000, leaving \$1.1 million available to the County for other affordable housing activities.

With the ability to use a "HOME 108" loan, a substantial number of units could be brought on line and be in service for the next 20 years. These units would not need annual rental subsidies.

While a five times multiplier was used in the above example, the impact is even greater with a larger multiplier:

Entitlement Multiplier	\$ Million	SRO Units	Townhouse Units
5	7.425	182	297
10	14.850	364	594
15	22.275	546	891
20	29.700	728	1,188

These examples have been simplified for presentation purposes. However, they clearly illustrate that a "HOME 108" program is needed to significantly expand HOME's potential as an effective production tool. Furthermore, the administrative cost of producing 60 units annually is about the same as that for 297 units or 891 units.

Another provision recommended for inclusion in H.R.3833 is a modification of the current-law requirement with respect to project monitoring. Under current law Participating Jurisdictions must perform an annual on-site review of each HOME-funded project to ensure compliance with the law's income targeting and rent restriction requirements. While we have no quarrel with the objective, we

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 March 16, 1994  
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believe a more efficient and cost-effective means of compliance would require Participating Jurisdictions to perform a desk review of tenant files annually, supplemented with an on-site review every three years. This would make the monitoring requirements under HOME similar to those applicable to the Low-Income Housing Tax Credit, a resource that is often used in combination with HOME.

Finally, we note that H.R.3838 does not contain a provision requested by the Administration and included in S.1299 restoring the threshold for receiving a direct allocation of HOME funds to \$500,000/\$700,000, up from the \$335,000/\$500,000 used whenever the HOME appropriation falls below \$1.5 billion. We are concerned that with the lower threshold, the growth of Participating Jurisdictions over time will result in a diminution of funds available to existing Participating Jurisdictions to the point where they will be inadequate to undertake activities to expand the supply of affordable housing.

#### Community Development Block Grants

This year marks the 20th anniversary of what many call the Federal Government's most successful domestic program. The CDBG program's success stems from its utility, i.e. providing cities and counties with an annual, predictable level of funding which can be used with maximum flexibility to address their unique community development needs. A considerable amount of CDBG funds are being used by ALHFA members for housing rehabilitation and to assist homebuyers with downpayment and closing cost assistance. CDBG provides a valuable complement to, and is not a substitute for, the HOME program.

Evidence that CDBG is successful in the eyes of the Congress is the fact that appropriations have gone from \$3.2 billion in FY 1991, to \$3.4 billion in FY 1992, to \$4 billion in FY 1993, to \$4.4 billion in FY 1994. ALHFA is pleased to have worked with the program's Congressional supporters, like the members of this Subcommittee, to help secure these increased appropriations. We are pleased to see that H.R. 3838 contains increased authorizations for CDBG, \$4.53 billion for FY 1995 and \$4.67 billion for FY 1996.

#### Section 8

ALHFA strongly supports the provision in H.R.3838 which eliminates the 15 percent limitation on the use of Section 8 certificates as project-based assistance. Permitting more Section 8 certificates to be used as project-based assistance will enable them to serve as credit enhancement, encouraging private lenders to make loans for additional, affordable multifamily rental housing.

#### Federal Housing Administration Programs

Mr. Chairman, ALHFA members are concerned about the sharp decrease in staffing at FHA during the years of the Reagan and Bush Presidencies. We urge this Subcommittee and the HUD



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Appropriations Subcommittee to closely examine FHA's field office staffing levels, and increase them where possible, to enable FHA to reenter in a significant manner the multifamily mortgage insurance business. With programs like FHA/housing finance agency multifamily risk sharing and multifamily property disposition becoming operational, local housing finance agencies need partners in HUD field offices to help implement these programs.

As to the FHA/HFA risk sharing program authorized by the Housing and Community Development Act of 1992, we are pleased to report that an ALHFA representative was "loaned" to the Office of the Assistant Secretary for Housing/Federal Housing Commissioner last summer to assist in fleshing out the design of the program and help draft the program's regulations. We believe that the program is the better for ALHFA's having been involved in this regard.

We are pleased to report that six local housing finance agencies, along with 28 state agencies, have submitted applications to participate in the 30,000 units authorized. Qualified agency participants are expected to be announced by HUD at the end of this month. We believe that if this demonstration program is the success we expect it to be, it will be the basis for a new approach to multifamily mortgage insurance - the sharing of risk between the federal government and local and state housing agencies. Therefore, ALHFA supports the reauthorization and expansion of the program by 15,000 units for FY 1995 and FY 1996.

Finally, the Administration's FY 1995 budget requests an extension of the Section 8 pension fund demonstration, the Community Investment Demonstration, which Congress authorized last year. The budget request is for \$514 million to support 5,000, 15-year project-based certificates which are expected to leverage \$1 - 2 billion in pension fund financing for affordable rental housing, a five-fold increase over the current year's level. ALHFA supports the expansion of this program and urges that it be reauthorized in H.R. 3838. There is, however, one aspect of the program which we would like to see omitted: the requirement that at least 50 percent of the funds be used in conjunction with the disposition of HUD-owned properties or HUD-held mortgages. We believe that this unnecessarily restricts the program. There are many communities that do not have any of these properties within their jurisdiction.

Thank you for your favorable consideration of ALHFA's recommendations.



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
OFFICE OF THE SECRETARY  
WASHINGTON, D.C. 20410-0001

## **Declaration of National Community Development Week**

*March 28th to April 3, 1994*

**Henry G. Cisneros**  
**Secretary of Housing and Urban Development**

This year, we celebrate the 20th Anniversary of the most effective and successful urban tool ever put to work in America's communities, the Community Development Block Grant (CDBG) program. While targeting urban blight and deterioration, CDBG for the first time gave local governments flexibility on how to attack their local problems. This approach has helped create a better way of life for millions of people in thousands of neighborhoods across the nation.

From major metropolitan areas to small cities, the CDBG program has been the driving force behind housing rehabilitation, neighborhood improvements, and local economic development. Through home improvement loans and grants, loans for local business growth and development, services for lower income elderly and poor children, it continues to help create a better way of life, primarily for poor and working class families. CDBG has shown the strength of a targeted but flexible approach to problems in our communities, while fostering cooperative relationships between the public and private sectors to solve these problems.

As Secretary of Housing and Urban Development, I hereby declare March 28th through April 3rd as National Community Development Week. During this week, and on the 20th Anniversary of the program's creation, I encourage Americans in communities large and small to examine the good works brought about by this exceptional urban development program.

APPENDIX

March 17, 1994

Opening Statement  
Chairman Henry B. Gonzalez

Reauthorization of Housing and Community Development Programs  
Public Housing and Section 8 Housing Assistance  
March 17, 1994

This is the Subcommittee's fourth hearing in this legislative session on the reauthorization of housing and community development programs. Today's hearing will focus on issues involving public housing and the Section 8 housing assistance payments program.

The witnesses appearing before the Subcommittee today represent all the major housing organizations with an interest in public housing and Section 8 -- organizations that have testified before this Subcommittee many times before -- including representatives of public housing authorities, the National Housing Law Project, and representatives of private owners, managers and developers. The testimony of these organizations has been of valuable assistance to this Subcommittee in the development of past reauthorization bills, and their comments today will be closely reviewed, and will help move us toward completion of the reauthorization process.

We will also hear from Ms. Barbara Burgo, a public housing resident, who has a very compelling story. She is a mother of three children who lost her job as a waitress because she could not find day-care, but who, through individual initiative, returned to school, completed her high school education, went through a job training program, and is now a social work



assistant. However, as a low-income wage earner she still faces much difficulty in meeting her family's monthly rent, food, health care and clothing costs.

H.R. 3838, the Housing and Community Development Act of 1994, which I introduced on February 10, 1994 with 20 members of the Subcommittee as original co-sponsors, has several initiatives and makes various revisions to public housing and the Section 8 programs. In public housing, these include several rent reform initiatives proposed last year by the Department of Housing and Urban Development, designed to assist working families who live in public housing. These provisions would disallow counting as earned income for a period of time the income of a formerly unemployed public housing resident, and would adjust ceiling rents so that they are reasonably related to the rental value of the units thereby making them more affordable to working families.

One of today's witnesses -- the Georgia Association of Housing and Redevelopment Authorities -- has done much work in reviewing and developing public housing rent reform proposals, and I am particularly interested in hearing their comments on this issue.

With regard to Section 8, H.R. 3838 provides for a merger of the certificate and voucher programs into a single rental assistance program. It does this by combining and restating many

current law section 8 provisions, removing outdated provisions, and generally clarifying and streamlining the section 8 program. I believe this merger will provide more administrative efficiency in the Section 8 program by eliminating the duplication that currently exists between the certificate and voucher programs.

I am looking forward to hearing the comments of today's witnesses on these proposals, and any other proposals that they believe this Subcommittee should consider in the development of the reauthorization bill.

First, I would like to welcome Congresswoman Corrine Brown, who will discuss a pilot program in Jacksonville, Florida that I understand has been very successful in providing social services to public housing residents.

(3/17/94)

REMARKS OF HONORABLE  
MARGE ROUKEMA  
PUBLIC HOUSING/ SECTION 8

Mr. Chairman, today we continue our oversight hearings by focusing on our nation's system of public housing and the Section 8 program.

Today, some 3,200 public housing authorities serve over 1.4 million households and close to 4 million residents.

Of this total, over 500,000 public housing residents are elderly. 75% of the families have female heads of household, and the incomes of most families occupying public housing averages at or below 30% of area median incomes.

Currently, there are close to 1 million households on the waiting lists for public housing.

In my own district in New Jersey, there several thousand low-income residents are being served by public and Section 8 assisted housing units, including the housing authority in Philipsburg.

Mr. Chairman, the fact is, public housing can be found everywhere throughout the country. The role this Committee must play is to provide the necessary resources to carry out our mandate to provide safe, decent and affordable housing for all Americans.

Today, we will hear from the very practitioners who work in and among our public housing communities.

This is not an easy job for some. There are problems which I will only highlight here.

First, we all recognize that there are needs far greater than the **resources** we can realistically afford. However, we certainly cannot afford to reduce funding levels for these programs. In this respect, I am very disappointed with the funding levels requested by this Administration for operating subsidies, development and for modernization.

As you and I have both protested, Mr. Chairman, robbing Peter to pay Paul or Pauline, as the Administration's budget proposes, will not make Paul or Pauline more well off but it will certainly make Peter much worse off.

Second, there is a growing need for some kind of **rent reform** which would help encourage public housing residents to seek work and would allow the PHAs to set more reasonable rents based on market value rather than just income. You, our Colleague, Mr. Knollenberg, and I have all introduced legislation to address this issue and I hope we will pass some form of reform this year.

Third, public housing **development**, including site and design standards must be reformed and here again, I have introduced some new ideas.

Fourth, we cannot seem to come to grips with the **1-for-1 hard unit replacement** requirement which I believe is a fundamental reason why so

many vacant and uninhabitable high rise units are still in our inventory and why new units are not being built.

Fifth, HUD's "**impaction**" rules and the Secretary's expressed desire to deconcentrate poor people in reality may serve to hamstring a PHA's need to replace vacant units by making it almost impossible to develop or acquire new housing in areas where the people need housing the most.

Sixth, HUD's foot-dragging on the **mixed populations** issue must be reversed and our proposals from last year must be implemented on an expedited basis.

Despite these problems, Mr. Chairman, we must remember - of the 3,200 housing authorities out there, **only about 25 to 30** are considered troubled by HUD.

I believe this is a good record for public housing. It means that thousands of people are living in safe, decent housing. It means our PHAs are doing a good job meeting the needs of our citizens.

For this, I believe public housing deserves our continued support.

Thank you Mr. Chairman.



**CAROLYN B. MALONEY**  
14TH DISTRICT, NEW YORK

COMMITTEE ON BANKING, FINANCE  
AND URBAN AFFAIRS

COMMITTEE ON  
GOVERNMENT OPERATIONS

CONGRESSIONAL CAUCUS  
ON WOMEN'S ISSUES  
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**OPENING STATEMENT**

**Subcommittee on Housing**

**Hearing on HR 3838:  
Public Housing & Section 8 Assistance**

**March 17, 1994**

Thank you Mr. Chairman. Today's hearing covers two of the most critical and important programs that we will re-authorize this year.

The public housing program provides homes for more than 3.4 million working people.

In my district, which has the reputation of being one of the wealthiest in the nation, thousands of my constituents live in public housing projects.

And while so many Americans view public housing as concrete rectangles of fear and misery, this impression is simply not accurate.

Stanely Isaacs Homes, Holmes Houses, Straus Houses, Corleas Houses, First Houses are all public housing projects in my district that are vital and positive examples that these projects can and will succeed, if given proper support and aid.

Mr. Chairman, the tenant leaders of these projects spend as much or more time making their homes beautiful as the condo boards of the toniest Park Avenue buildings.

There are a number of important reforms contained in HR 3838, especially allowing working public housing residents to continue working without being penalized by rent increases.

This is a good reinventing government and welfare reform proposal. It's high time that Congress provided incentives to work, not disincentives.

I have barely touched on the Section 8 program, which provides housing through the private sector mechanism for more than 1.25 million families.

There are several reforms of Section 8 housing that I believe would be conducive to improving the program.

These are not drastic reforms, and I ask unanimous consent to include in the record a copy of a letter I sent to HUD last November outlining these suggestions.

Lastly, Mr. Chairman, I remain deeply troubled over the size and impact of the proposed HUD budget cuts.

With over one million people on waiting lists, and probably a few million more waiting to get on the waiting lists, I cannot understand how decreasing the funds available for affordable housing is supposed to be either compassionate or fiscally responsible.

In New York City alone, Mr. Chairman, the Department of Housing, Preservation & Development estimates that there are more than 200,000 families living doubled or tripled up with other families in apartments.

These families are termed by HPD the hidden homeless, and while they aren't counted in any official statistics, we must incorporate them into our thinking about the needs for public housing.

The daily grim reminders of homelessness, such as the person who died from exposure outside HUD headquarters, should reinforce the need for more, not less, money for housing.

If we can provide billions in supplemental spending each year for the Pentagon, beyond the annual \$220 billion we provide, surely we can find it in our budget to provide HUD the needed funds to allow all our citizens the opportunity to live in a decent home.

Thank you.

CAROLYN B. MALONEY  
14TH DISTRICT, NEW YORK

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# FILE COPY

November 15, 1993

The Honorable Joseph Shuldiner  
Assistant Secretary for Public & Indian Housing  
Department of Housing and Urban Development  
451 Seventh Street, SW  
Room 4100  
Washington, D.C. 20410

Dear Assistant Secretary Shuldiner:

I am writing to express my strong support for revisions to the Section 8 certificate and voucher program that will reduce red tape and ease the ability of large cities, like New York City, to better serve Section 8 recipients.

I have appended to this letter a detailed analysis, prepared by New York City's Department of Housing, Preservation & Development, of the points which I will briefly discuss below.

Firstly, it seems inconceivable to me that persons who are homeless *and on public assistance* must still go through HUD income verification before they can be eligible for Section 8 assistance.

Secondly, homeless families should be eligible for the Section 8 subsidy effective as of the move-in date to their apartment, provided that the HQS inspection has been completed,

Thirdly, buildings that have been gut-rehabilitated by the City should not have to go through an additional HQS inspection by HUD to determine unit eligibility for Section 8 certificates.

Fourth, regulatory impediments to project-based Section 8 assistance should be eased. Frequently, New York City finds itself in the position of issuing new certificates on a regular basis to families or individuals in high-turnover buildings. Allowing a project-based certificate in approved SRO's would cut down on red tape and increase the number of available certificates.

Fifth, under various HUD regulations, the City is unable to provide Section 8 assistance to low-income families earning between 50% and 80% of median income. Ironically, as the City renovates buildings, it becomes *harder* for those tenants to stay in the new apartments because of necessary rent increases. While current law allows HUD to provide assistance under Section 8, this assistance has not been forthcoming.

Hon. Joe Shuldiner/November 15, 1993  
page 2 of 2

Lastly, I wish to express my opposition to a proposed HUD rule that would *prohibit* Section 8 assistance to tenants in buildings rehabilitated with State or local funds. If implemented, this rule would provide a serious disincentive to the creation of affordable housing around the country and particularly in cities and states like New York that have been active in recent years to fill the void left by Federal neglect since 1981. I strongly urge you to take all appropriate measures to prevent implementation of this ill-conceived regulation.

I appreciate your careful attention to all of these matters. If I can be of any assistance to you on these or future issues, please do not hesitate to let me know.

Sincerely,

**CBM**  
CAROLYN B. MALONEY  
Member of Congress

CBM/asl

cc: Hon. Felice Michetti, Commissioner, NYC Department of HPD  
Judy Chesser, Director, New York City Office of Federal Affairs



Statement of Congresswoman Brown  
before the House Banking Committee's  
Subcommittee on Housing and  
Community Development

March 17, 1994 at 10am

Chairman Gonzalez and Members of the Committee:

I appreciate the opportunity to appear before the subcommittee today to inform you of an ongoing social services program offered to the public housing residents of Jacksonville, Florida.

The Children's Home Society and the Boys and Girls Clubs programs, which are in their second year of operation, are funded by the City of Jacksonville. If this combined program continues, Mayor Ed Austin believes that it can be successful in its long term goal of alleviating the growing crime and drug problem inherent to all large cities -- and that it has the potential to improve the quality of life for inner city residents.

Although less than two years old, the programs have achieved positive results. We believe that this program could become a national model for pushing out crime, drugs and the ever present despair so prevalent in most of our large urban areas. The seed money I am requesting will bring the program up to full service and provide long term beneficial results.

The program provides comprehensive neighborhood-based social services to children and families occupying public housing the Durkeeville, Pottsburg Park and Ramona Park neighborhoods.

The City has invited the participation of community groups and businesses and has successfully integrated the larger community into its overall program. Barnett Bank, the Boys and Girls Clubs, the Red Cross, and Florida Community College at Jacksonville have all joined the City as partners, each offering services in their particular areas of expertise.

In a center established on site within the projects, social workers are present to counsel children and parents alike on a wide array of problems including parenting, childbirth preparation, nutrition, adult employment training, and counseling for troubled youth.

Drug prevention and intervention programs have been instituted for three distinct and separate groups. There is a drug prevention group for children, a drug awareness and a drug treatment group for adults. Individual one-on-one sessions are also offered.

One of the key objectives of the overall program is to give all of the children and adults a positive sense of power over

their own future. On site services are provided for residents who would not otherwise have access to them due to transportation limitations. Vans are also provided so that parents can visit their children's schools to meet with teachers and counselors. This enhances the parent's involvement in their children's education.

Some of the program's goals are:

- \* to increase parental knowledge of appropriate child development and discipline;
- \* to decrease the instances of child abuse;
- \* to increase the weight of newborns;
- \* to increase children's attendance and their grades in schools;
- \* to reduce the need for police actions in the complex;
- \* to increase the number of adults with good paying jobs; and finally to
- \* give the residents a sense of pride in their surroundings by helping them to make their complex more beautiful.

Positive results from the program have already been noted. Residents not only use the center, but its evaluations are completely favorable. 94% of residents say that the social services program has been helpful and 99% want the program to continue.

We know that the social services center at Pottsburg Park is working. Seven families have been able to leave the complex and become economically self-reliant.

The Jacksonville Sheriff's office statistics show a 31% drop in arrests at Pottsburg Park in the past year. There has also been a 39% decrease in assaults, a 40% drop in sexual assaults and a 44% decrease in thefts and robberies.

I would like to submit for the record an article from the January 28, 1994 edition of the Florida Times Union which describes the positive impact which the social services program has had on the Pottsburg community after just one year of operation. The article states that Pottsburg "...used to be a place of despair fed by poverty, drugs and crime...it's now a place of growing hope and community spirit."

Mr. Chairman, I want to commend Mayor Austin for instituting this important social services program in Jacksonville. The City is committed to continuing the program and plans to incorporate this program within the City's Community Coalition for Children. The City of Jacksonville is requesting a federal government contribution of \$1.8 million to enable the program to expand up to full service through the acquisition of additional equipment and other capital improvements.

Thank you for the opportunity to appear before the subcommittee this morning. I would like to request that my complete statement be included in the record.



Tutorial assistant Earnest Tolliver works with Randy Simmons (seated, from left), 13, Dwayne Clark, 13, Troy Anderson, 15, and Tenesia Stanley, 13, in a Children's Home Society program at Pottsburg Park. — M. Jack Luedke/staff

# New look at Pottsburg Park

Place of despair now shining as a beacon of hope

By R. Michael Anderson

Staff writer

Violence and death at Pottsburg Park apartments aren't just statistics for Betty Randall.

Randall, president of the 86-household Pottsburg Park Tenant Association, lost her son in a shooting there years ago.

The public housing project used to be a place of despair fed by poverty, drugs and crime.

Now it's a place of growing hope and community spirit.

Jacksonville Sheriff's Office statistics show a 31 percent drop in arrests at Pottsburg Park in the past year. The statistics also show a 39 percent decrease in as-

saults, a 40 percent drop in sex crimes and a 44 percent decrease in thefts and robberies.

"The people are beginning to feel different about themselves and they don't tolerate crime anymore," said Brenda Colleton, a social worker at the apartments.

Randall attributes the change to a year-old program administered by the Children's Home Society. Once plagued by shootings, assaults, thefts and drug dealers, Pottsburg now is a much safer place, Randall said.

The Children's Home Society program is run under a \$250,000 grant from the city's Child Services Division. The program provides:

- A full-time social worker and van to transport residents to school, clinics, social service agencies, grocery stores or day care.

- Family counseling and parenting, childbirth preparation and nutrition classes.

- Adult education and employment training.

- Homework and tutoring assistance for children and a counselor who works with teenagers on such issues as conflict resolution and anger control.

- Drug rehabilitation counseling.

- Ken Middleton, administrative assistant.

(See POTTSBURG, Page B-3)



Florida Times Union  
Friday, January 28, 1994

## Pottsburg Park taking on an attitude of hope

(From Page B-1)

in the Child Services Division, said the Pottsburg program has "had a positive impact on the community."

"A number of residents have been able to up their economic status and move out of the Pottsburg area as a result of the program," Middleton said.

Middleton said officials hope to

extend the program to additional public housing projects if funding is approved.

Karen Tossi, director of Children's Home Society's Family Resource Department, said much of the Pottsburg success is due to "a full-time social worker [Colleton] and a parent-tenant liaison [Randall], trained in parenting education at the center."

Colleton said the center not only provides help for parents, most of whom are single mothers, but also for youths. A playroom is open for kids while parents are in classes. Reading help is available for children after school.

Earnest Tolliver works with teenagers. The 23-year-old counselor graduated from Edward Waters College last year with a degree in

mathematics.

"Earnest is a wonderful male role model for these," Colleton said. "He helps them with their homework and he does bonding things with them. He takes them to football games, basketball games, they go bowling..."

Tolliver also tutors teens works with them on conflict resolution and anger control.


**NAHRO**
**National Association of Housing and Redevelopment Officials**

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**Statement**
**of**
**Robert L. Armstrong**
**on behalf of**
**The National Association of Housing and Redevelopment Officials**
**before the**
**Subcommittee on Housing and Community Development**
**US House of Representatives**
**on**
**Rent Reform in Public and Assisted Housing**
**March 17, 1994**

The National Association of Housing and Redevelopment Officials is a 60 year old professional membership association of housing and community development officials throughout the United States who administer HUD programs at the local level. Its membership, numbering 9000, has long participated in the creation and fine-tuning of national housing policy and programs.

**Robert L. Armstrong**, President **Richard C. Gentry**, Senior Vice President **Richard P. Drnevich**, Vice President - Community Revitalization and Development **Alyce Flanary**, Vice President - Housing **Mary Lopez**, Vice President - Commissioners **Gary Parsons**, Vice President - Member Services **Renée Rooker**, PHM, Vice President - Professional Development **Richard Y. Nelson, Jr.**, Executive Director

Thank you, Mr. Chairman, for the opportunity to share the views of NAHRO members with this Subcommittee on reforms to the public housing and Section 8 rental assistance program. My name is Robert L. Armstrong and I am the President of the National Association of Housing and Redevelopment Officials (NAHRO) and the President and Chief Executive Officer of the Omaha, Nebraska Housing Authority.

My authority is a "large" authority which manages more than 3400 public housing units and administers 3700 units of Section 8 Rental Assistance. The waiting list for public housing numbers 1100 families and 438 seniors. The average wait for a family is 18 months. The average family income in Omaha public housing is \$ 6282 per year. The average tenant rent payment each month is \$126. It costs the Authority an average of \$166 per month to heat, light, and otherwise maintain a unit of public housing.

We operate a number of resident employment and training programs, youth recreation and after school, mentoring, stay-in-school, drug deterrence, and voter registration programs in the Omaha Housing Authority. We employ a number of public housing residents at our authority in clerical, maintenance, and youth work. In fact, 27% of our workforce are public housing residents.

We are most proud of our Gateway building where 32 public housing residents are employed by the Authority in the manufacture and sale of doors and windows. The products are sturdy, good quality and are used not only in our own Modernization program, but are sold to a number of other housing authorities around the country. A brochure on the operation is circulating on the dais.

As a result of these jobs, 32 Omaha public housing residents, most of them women, are earning income for the first time in their lives. They are gaining control of their lives and saving for the future. Their ultimate goal is to afford to live in an apartment or house on the private rental market.

But they are penalized by current rent rules. Every time their income goes up, their rent increases as well. So there's not much left over for other necessities.

While HUD has recognized this problem and proposed some rent reform, NAHRO would go further and extend rent reform to Section 8 residents as well. Rent reform is part and parcel of a broad welfare reform effort in a number of federal programs. Excluding more than 3 million Section 8 households from rent reform is unfair and illogical from a policy point of view.

We also propose a number of fine-tunings to the HUD proposal to take into account the different circumstances of different families. We commend you, Mr. Chairman, for excluding stipend and program-related income for those in job training and self sufficiency programs in your bill.

We propose several refinements to the rent reform section of your bill.

1. Increase the period of earned income disallowance to two years from the 18 months currently in the bill.
2. Increase to twenty percent (20%) the portion of earned income of currently employed residents which should be deducted from their "income" for rent calculation purposes. Current law deducts ten percent (10%).
3. Exclude all earned income for three years of young adults under the age of 25 who are not the head of household and who join the workforce.
4. In no event should the income exclusion result in a zero rent with a "negative" rent payment to the tenant by the Local Housing Authority.
5. Rent increases may be phased in, at the option of the LHA during a period of up to five years so that the tenant's rent payment does not increase by more than 10 percent per year during that time period.
6. A time certain for HUD to issue rules to implement this provision is essential.

#### **Regulatory Relief for Local Housing Agencies**

Every Administration, both Democratic and Republican, have endorsed regulatory relief for a variety of public and private constituencies. Nevertheless, the past decade and a half has produced more rules and paperwork for local housing authorities as new federal mandates were promulgated, new HUD programs proliferated, and a "Gotcha" mentality pervaded our HUD overseers.

Congress contributed to this morass by legislating in minute detail the specifics of new and current programs in an effort to ensure that HUD followed Congressional intent. The result, however, has been inordinate and burdensome costs in personnel, time, and paperwork for both LHAs and HUD.

NAHRO suggests four areas for regulatory relief:

1. A Proclaimer Process by LHAs for compliance with HUD rules.

LHAs would certify, as part of their HUD program application, that they are complying with and will comply with HUD rules. They would be subject only to annual post-activity audit by an independent auditor. This should decrease the need for HUD Field Staff to monitor so many programs, agencies, and to do so frequently. It would free up HUD to focus on program monitoring and technical assistance to troubled and small agencies.



2. LHAs should be authorized to share 50 percent of the savings they achieve through efficient management. Currently all savings must be deducted from operating subsidies and returned to the US Treasury. This removes the incentive to LHAs to find and achieve program savings. It is in keeping with the "reinventing government" theme.
3. For the **Public Housing Modernization** program, Congress should authorize cash fungibility between fiscal years for Local Housing Authorities. This would enable them to move ahead with major repair and replacements to public housing sites that are ready to go, while deferring those which have situations causing delay. All Modernization projects would have to be in the LHA's approved five-year plan.

For example, a local agency may have proposed Modernizing a public housing building in Year One which still has residents living in it. The Year Two program might have proposed a new roof for another public housing building which would not require relocation of tenants. Under the NAHRO proposal, the LHA could proceed with the Year Two work using Year One modernization monies. Currently this is not permitted and contributes to delays in the Modernization of Public Housing, the backlog of which is estimated by HUD at \$21 billion.

4. For Public Housing Development, Congress should authorize LHAs to certify their compliance with federal environmental and historic preservation laws. Currently, they must wait up to six months for HUD approval of their proposals, for which the LHAs have previously prepared impact statements.

#### **Merged Section 8 Rental Assistance Program**

NAHRO has long supported a merger of the Section 8 certificate and voucher programs. We believe this will simplify the program for tenants, landlords, HUD, and LHAs. And it will reduce the paperwork and administrative costs of administering two separate programs.

Your reauthorization bill, Mr. Chairman, of two years ago contained a Merged Section 8 Program, as does the bill before us today. However, there are some differences between your original and current proposal. We propose the following modifications to your bill:

- 1) The Fair Market Rent for each local housing market should be increased to the 50th percentile of the area's local rents. It is currently set at 45 percent and HUD proposes to reduce the share of the rental market to 40 percent. We disagree strongly with the HUD proposal, which will have the effect of further concentrating the poor in certain parts of town and limiting their choice of

housing. The Department's proposed reduction would subvert the Department's efforts to spearhead fair housing and "moving to opportunity" initiatives.

- 2) FMR setting could be done by the LHA, rather than HUD, in many instances. It should be an option in your bill, with the rents subject to HUD disapproval. The Local Housing Authority is on-site in the housing market, knows the market rents, and is best equipped to determine reasonable FMRs. Your bill does not permit this. We urge that it do so to relieve HUD of a burdensome task which consumes enormous amounts of staff time and money -- something the Department can ill afford to spend on non-critical missions.
- 3) Furthermore, the bill should provide for submarket rent-setting. This feature would match rents more closely to the specific neighborhood and avoid over and under-payment of Section 8 rental assistance.
- 4) NAHRO does not believe that public housing residents should have a Federal Preference for Section 8 assistance, as your bill provides. Public housing residents (1.4 million households) are already housed and receive HUD assistance. Waiting lists for Section 8 number more than 800,000 families and individuals. The proposed authorization level in your bill for additional Section 8 assistance would only be able to house 63,500 of those currently on Section 8 waiting lists.
- 5) Tenants seeking to rent housing in better neighborhoods, with more amenities, and close to the tenant family's school, place of worship, shopping, and work should be permitted to pay not less than 30 percent but not more than 50 percent of their income for rent, based on a "rent reasonableness" test by the LHA for the market in which the housing unit is located.

Your bill of two years ago provided a 'shopping incentive' to tenants to seek housing in better neighborhoods by permitted them to pay up to 40 percent of their income for rent, subject to "rent reasonableness". HUD, in its legislative proposal, suggests residents should be permitted to pay up to 45 percent of their income for rent.

- 6) HR 3838 should set a date certain for HUD rulemaking to implement a Merged Section 8 program.

We commend you for providing the flexibility to LHAs to determine the amount of Section 8 assistance to project-base and for including the NAHRO proposal to "make whole" those LHAs which lose Section 8 assistance through portability.

Most importantly, we thank you for freezing the Section 8 Administrative Fee at its current level of 8.2 percent for FY 1995 and 1996. This will provide sufficient time for HUD and others to document the true costs of administering this increasingly complex program with a growing number of federal mandates including Family Self Sufficiency, portability, and Federal Preferences.

The HUD proposal to change the way this fee is calculated is precipitous and unsupported by facts. A reduction in the Section 8 fee at this time would harm tenants by short-changing annual income recertifications, Housing Quality Standard inspections, counseling services by LHAs, and Family Self Sufficiency efforts.

#### **Community Partnerships Against Crime (COMPAC)**

NAHRO concurs with the broadening of Public Housing Drug Elimination Grants (PHDEP) to a generic crime deterrence and reduction program in public housing (COMPAC). We are concerned, however, that this proposal of HUD limits the bulk of the funding to 157 "large" LHAs. HUD, in discussions with NAHRO, has made it clear that it intends to funnel most of this new program to "large" LHAs which manage more than 1250 public housing units.

In doing so, the Department will hamper and, in some cases, terminate on-going efforts to reduce crime under the current grant program in hundreds of other public housing communities, simply because they fail to meet the 1250 unit threshold. Nine states have no "large" housing authority; 12 other states have only one; and another 6 have only two "large" LHAs.

As proposed, COMPAC will deny funds to many suburban metropolitan area LHAs with equally serious crime problems. In the five year history of this program, 1278 of the nation's 3400 public and Indian housing agencies have ever received a grant.

NAHRO proposes that COMPAC be structured as follows:

- 1) All LHAs with HUD-approved five-year crime reduction/deterrence plans be eligible for formula funding. The plans would be subject to HUD disapproval similar to the CHAS requirement under the HOME program.
- 2) Funding should be based on the number of public housing units an agency manages. The national pot would be divided on a dollar-per-unit basis among those HUD-approved LHAs.
- 3) Grants would be renewable up to four subsequent years, subject to annual HUD performance reviews.

### **Public Housing Modernization Formula Revisions**

We urge this Subcommittee to revise the Mod formula to require HUD to factor in the following costs:

- 1) lead paint testing, abatement, disposal, worker training, and insurance
- 2) accessibility for the disabled required by Sec. 504 of the Rehabilitation Act and the Americans with Disabilities Act
- 3) hazardous material abatement required under Superfund

Furthermore, we believe the Public Housing Vacancy Reduction program, which is a set-aside within the Mod account, should be abolished. The Severely Distressed Public Housing program, which is operational and in its second year of funding, effectively addresses the problem for which this set-aside was intended.

### **Public Housing Operating Subsidy Revisions**

The Performance Funding Systems (PFS) was created by Congress in 1975 to formula fund 2900 local housing authorities where tenant rental payments do not cover the costs of management, maintenance, and utilities of the public housing in which they live. The PFS has not been revised since then, yet a number of new federal mandates and escalating costs have made it necessary to revisit this formula.

NAHRO urges this Subcommittee to include in the PFS the following items:

- 1) LHA employee benefits
- 2) tenant income adjustments mandated by NAHA
- 3) rental revenue reductions resulting from Rent Reforms
- 4) Service Coordinator costs for Family Self Sufficiency, Mixed Populations, and Elderly public housing programs
- 5) deferred maintenance
- 6) utility costs of air conditioning

Congress should direct HUD to engage in negotiated rulemaking to revise the Performance Funding System.

### **Mixed Populations**

Our members were dismayed with the rules finally proposed by HUD for mixed populations in public housing. We think the Department has seriously misread Congressional intent and urge this Subcommittee to look at the HUD proposed rules in the context of your deliberations to craft Title VI (Mixed Populations) of the 1992



Act. We will share our comments to the Rules Docket Clerk on this matter with the Subcommittee next week.

One legislative improvement which we believe will aid substantially in our efforts to provide secure, reasonable, and appropriate supportive housing for both senior citizens and younger mentally disabled persons is to permit local housing authorities to sponsor Sec 811 Housing for the Disabled. We urge its inclusion in your bill, Mr. Chairman.

We are delighted that HR 3838 would fund the Major Reconstruction of Obsolete Projects (MROP) at \$200 million and the Sec. 811 Housing for the Disabled at \$477 million. Both programs were authorized by Title VI of the '92 Act to serve as housing resources to LHAs to enable them to create new supportive housing for the disabled and for seniors. These programs can be a pressure relief valve for those senior buildings currently in turmoil because of conflicting lifestyles between seniors and younger mentally disabled persons.

They, combined with the proposed Merged Section 8 program, which would provide an estimated 65,266 net new units are essential components of the solution to the growing problem of Mixed Populations.

#### **Restore the Consolidated Supply Program**

In connection with HUD and Local Agencies' efforts to expedite the obligation of Modernization funds and return public housing units to occupancy, we urge Congress to restore the HUD Consolidated Supply Program.

This voluntary bulk procurement program was created administratively by HUD in 1965 and abruptly terminated by the Bush Administration. It enables local housing authorities to purchase standardized items used in modernizing public housing from HUD-certified suppliers. Products include kitchen stoves, cabinets, bath fixtures, and appliances. Purchase can include installation of the items as well.

The CSP reduced costs and paperwork to LHAs because they did not need to have in-house procurement and contracting officers. Nor did they have to go through the time-consuming and elaborate three-bid procedure to decide on the lowest bidder. These costs savings were particularly important to small and medium sized LHAs, numbering more than 3100 nationwide.

The demise of the CSP has hampered and delayed procurement under the Modernization program, thereby contributing to the pipeline of unspent funds.

### Lead Paint Testing Deadline Extension

Representative Roukema first focused this Subcommittee's attention on the problem of lead-based paint in older public housing in 1987. The Act that year required all LHAs to test a random sample of its family public housing (more than 800,000 units nation-wide) to determine if lead was present in the paint in those units. A deadline of December of 1994 was set for this sample testing to be completed.

A number of issues immediately arose in connection with this mandate. For one, this new federal mandate did not come with new money. The level of lead considered toxic to children was revised downward by the federal government in the ensuring time period. The sensitivity of testing instruments and laboratories got better during the same period. Worker training programs began to be developed in the proper procedures to test and abate while protecting both current residents, as well as the workers themselves.

The LHA has no special funding to abate the lead paint, and must rely on its Modernization program, which was not planned with this mandate in mind and for which federal formula funding does not include the costs of abatement.

NAHRO suggests the deadline be revised to direct LHAs to complete random testing of family public housing within one year of receipt of Modernization or Comprehensive Improvement Assistance Program (CIAP) funds for this purpose.

Furthermore, we urge this Subcommittee to direct HUD to factor into the Modernization formula (Sec. 509 of NAHA) the costs of lead-based paint testing and abatement and to include that cost in its annual budget proposal to the Congress.

### HUD Property Disposition: LHA Right-of-First-Refusal

We are pleased, Mr. Chairman, that your bill, as well as the Senate-passed bill provide for local public agencies the right-of-first-refusal to acquire HUD-held single and multifamily housing for low-income reuse.

Local Housing Authorities have extensive track records in producing, leasing, purchasing, managing and maintaining low rent housing for American families and seniors. They are in virtually every local housing market and are able to put their expertise to work to assist HUD in converting its foreclosed housing inventory into a new affordable housing resource.

NAHRO is currently working with the Resolution Trust Corporation in training and outreach to LHAs to expedite the resale of RTC-held properties as well.

Thank you for the opportunity to be here.

**Additional Questions**  
**Hearing -- March 17, 1994**

From Chairman Gonzalez to

**National Association of Housing and Redevelopment Officials**

(Mr. Robert L. Armstrong)

1) One of the central purposes of rent reform is to improve the economic mix in public housing developments. How specifically does an increased economic mix benefit public housing developments?

2) How do current public housing rent determination rules disadvantage working families?

3) H.R. 3838 contains several rent reform initiatives proposed last year by HUD that are designed to assist working families who live in public housing. One of these provisions would disallow counting as earned income -- for 18 months -- the income of newly employed public housing residents who had been previously unemployed for a year. In your opinion, is this 18 month period a long enough period of time for newly employed public housing residents to adjust to their new economic status before they face possible rent increases?

4) H.R. 3838 contains a HUD initiated rent reform proposal that would make ceiling rents for public housing units reasonably related to the rental value of the units. Why do ceiling rents often exceed the reasonable rental value of public housing units, and how does this impact on working families?

5) The proposed FY 1995 HUD budget would substantially reduce public housing operating subsidies. Given that public housing rents do not cover the operating costs of public housing units, how will this proposed reduction impact on public housing developments? What kind of day-to-day maintenance in public housing developments will suffer as a result of these proposed reductions?

6) One of the concerns the Subcommittee has heard about HUD's Community Partnerships Against Crime or COMPAC proposal, incorporated in H.R. 3838, is that the funding allocation formula for this new program will favor large public housing authorities over smaller housing authorities, even though both large and small housing authorities have similar crime problems. How specifically would small housing authorities be disadvantaged by the funding allocation formula, and how would you change the allocation to avoid this potential problem?

7) Various proposals have been raised about relaxing the one-for-one replacement requirement for public housing demolished or disposed in a "severely distressed" project. What is the position of your organization with regard to these proposals?

**Answers for the Record  
of  
Chairman Gonzalez  
by  
Robert L. Armstrong  
NAHRO**

**1. Benefits of economic mix in public housing developments**

By economic mix, NAHRO means that a greater percentage of residents of public housing would be the 'working poor' - those who earn income and whose income does not exceed 80 percent of the area median income.

Currently, because of federal preference requirements, long waiting lists, and very limited new additions to the public housing stock, few families whose income exceeds 50 percent of the area median are admitted to public housing. Compounding this concentration of very low income households are the current rent disincentives. If a very low income household gets a job and earned income, their rent goes up according to their income.

The benefits of an income mix in public housing are that the 'working poor' serve as role models to neighboring public housing families. By observing working households who go to work every day, have more disposable income which begins to show up in better clothes for the children, perhaps a used car to get to work, an occasional meal out, other non-working public housing residents see the rewards of work. Work imposes a discipline on families by its routine. Idleness and the temptations to mischief are minimized.

Working families begin to set other goals for themselves and their families, like saving for more education, and better job skills, and to ultimately move out of public housing into the private rental market. All of this is in keeping with the original premise of public housing as a temporary way station for families temporarily down on their luck.

The depression and malaise which all too frequently accompanies long-term unemployment and dependency on federal assistance begins to lift. Working families regain their self confidence and pride. Children's school work improves. Their involvement in their community picks up, as they reestablish connections with family, neighbors, church, schools, and other community institutions.

By demonstrating every day the rewards of work, the working poor in public housing help to break the cycle of dependency on federal assistance not only for themselves, but their neighbors who begin thinking in this direction as well.

Finally, the working poor have higher incomes which, after an initial income disallowance period, result in more rental revenue to the housing authority. Over time, the increased rental revenue



has a positive effect on the growing need of housing authorities for annual operating subsidies to offset the difference between the costs of utilities and routine maintenance and 30 percent of resident income.

## 2. Current public housing rent penalties for working families

Currently, when a public housing resident's income increases, the rent increases. If a parent gets a job with earned income, thirty percent of that earned income must go to the rent payment. It leaves little discretionary income and little reward for work.

For example, in the State of Maryland a single-parent public housing family with three children and no employed member has a monthly income of \$491 and pays rent of \$111. In addition, they also rely on Food Stamps and Medicaid. Their net disposable income, after rent, is \$617, including food stamps.

The same public housing family with one member working a minimum wage job of 40 hours per week has a monthly income for rent purposes of \$ 729, but pays twice as much rent - \$219. In an entry level job, the wage earner, in all likelihood does not have medical insurance coverage for herself and her children.

Their monthly net disposable income would be about \$536, which is \$81 less than their net disposable income, had they not had an employed member and relied entirely on federal assistance. This working family example assumes monthly fixed expenses of \$555 comprised of:

- \$219 rent
- \$ 56 FICA - social security taxes
- \$133 federal taxes (15% bracket)
- \$ 9 Maryland state/local taxes
- \$100 car fare, lunch, uniform, union dues
- \$ 38 child care (2 children - subsidized)

She continues to receive Food Stamps, but at a lesser amount. She cannot afford medical insurance or a telephone. With her \$536 net disposable income per month, she can barely afford clothes for herself and her children, along with other bare necessities.

Their rent would continue to increase as their income increased, as the rent is pegged to 30 percent of their income, regardless of its source.

## 3. 18 Month Earned Income Disallowance Period

NAHRO members believe a period up to 24 months is sufficient time to ensure that a family gets on its feet financially and avoids slipping into unemployment again.

Once we gain experience with a disallowance period, we will be in a better position to recommend adjustments to that

disallowance period for a future reauthorization bill.

#### **4. Ceiling rents exceeding the rental value of public housing residents**

Ceiling rents sometimes exceed the rental value of public housing units because they are sometimes located in residential submarkets where rents are extremely low or there are few comparable private market units. Current law requires that ceiling rents must be set at a level to cover the average monthly operating expenses and debt service attributable to similar size units operated by the housing authority in other projects.

In some cases, average debt service and operating costs per unit may exceed the surrounding private submarket units, if the public housing development is in a depressed neighborhood.

#### **5. Public Housing Operating Subsidy - HUD Proposed FY 95 Budget**

More and more routine maintenance will be deferred if the HUD proposed FY 1995 operating subsidy level is funded. This means plumbing will go unrepaired for longer periods, leading to more serious and costly water damage. Hallway lights may not be replaced as quickly or at all when bulbs blow out. The frequency of trash collection may be reduced leading to rodent and other infestation problems. The frequency of pest control of units may be reduced. Malfunctioning appliances may go unrepaired for longer periods of time, which can create dangerous situations.

#### **6. HUD "COMPAC" proposal - impact on small housing authorities**

HUD, in several discussions with NAHRO, has made it clear that it intends to devote the bulk, 75 percent, of COMPAC funding to the 157 large housing authorities nation-wide. This will be accomplished through the proposed special class of LHAs with "especially severe crime problems", as proposed in S. 1299 and HR 3838. Different eligibility criteria would be applied for those LHAs in this special category.

NAHRO believes the seriousness of crime in public housing is relative to the public housing community in which it is located and to the community-at-large in which it is located.

The HUD proposal would tilt funding to a limited number of LHAs, most of which are center-city housing authorities, without addressing the equally serious problems of crime in surrounding metropolitan area public housing developments. This would be unfair and, we believe, unjustified.

NAHRO proposes that COMPAC funds be allocated on a formula basis to those LHAs which:

1. develop a five-year comprehensive crime deterrence and reduction plan, and

2. have that plan approved by HUD, and
3. are subject to annual performance reviews by HUD

Once approved, those LHAs would receive formula funding based on the total number of public housing units they manage divided into the annual COMPAC funding to derive a per/unit dollar amount. That dollar amount would then be multiplied by the number of public housing units which the agency manages to produce the formula funding amount.

We think this is a more fair and reasonable way to allocate crime funds without disadvantaging the 703 mid-size (250 - 1250 units) and 2542 small (fewer than 250 units) public housing agencies and the communities they serve.

We do not suggest that all 3400 Public and Indian Housing Authorities have a crime problem which COMPAC should address. Nor do we expect them all to prepare five-year plans. In the entire history of the predecessor Public Housing Drug Elimination Grant Program (PHDEP) program, approximately 1700 agencies have ever received a grant.

Smaller agencies would be disadvantaged by the HUD proposed focus on large agencies because they would have to compete for a relatively small amount of funds against a potential universe of 3243 other agencies. They would have to go to the time and expense of preparing a grant application each year on the outside chance that they might be awarded funding. For many smaller agencies, with part-time or fewer than 10 full-time staff, this is already an inordinate burden.

Furthermore, our proposal would lift from HUD a significant paperwork and review function by providing for HUD disapproval of a five-year plan, thereby avoiding the annual grant review of more than one thousand applications from agencies large and small. The HUD Inspector General has repeatedly identified thin HUD staff stretched too far as a "material weakness". The NAHRO proposal frees HUD staff to focus on program performance and evaluation and technical assistance to those agencies which need it. This is in keeping with the "reinvention" of HUD promoted by Secretary Cisneros and Vice President Gore.

## **7. One-for-One Replacement for Severely Distressed Public Housing**

NAHRO believes LHAs with severely distressed public housing should have some flexibility in their replacements of units demolished or sold. We believe LHAs should have the option to use five-year tenant based assistance to replace some of the units removed from the public housing inventory. We also suggest that, in cases where an application has been made for "hard" public housing replacement units and units are unavailable due to the limited funding of Public Housing Development/Acquisition, that the

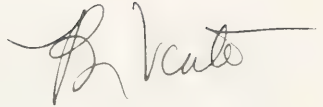
LHA with a distressed property be permitted to use its Modernization funds to demolish and replace those units.

NAHRO also proposes that the one-for-one replacement requirement for distressed public housing could also be fulfilled through the rehabilitation of vacant, privately owned housing in the area of the distressed property as part of a local comprehensive neighborhood revitalization strategy. Another option should permit LHAs to replace some units in a neighboring jurisdiction.

It is becoming increasingly apparent that some of the most long-term vacant and vandalized public housing is poorly located at high density levels. This fact, combined with the reality of a virtual shut-off of funding of new public housing units and 15 year project-based assistance, argue strongly that we must turn to those resources which are available. And that means five-year tenant-based Section 8 assistance.

We are doing residents, the communities in which severely distressed developments are located, and the public housing program-at-large a disservice if we continue to do nothing. And that is essentially what is happening in too many communities with severely distressed developments, where reasonable solutions are available which ensure affordable rental assistance for some of the hundreds of families on local waiting lists.





ADDITIONAL QUESTIONS OF  
CONGRESSMAN BRUCE F. VENTO  
FROM THE HEARING OF THE HOUSING  
AND COMMUNITY DEVELOPMENT SUBCOMMITTEE  
MARCH 17, 1994

FOR ROBERT L. ARMSTRONG, NAHRO

1. What number of larger public housing authorities (1250 and over) did not receive public housing drug elimination grants? Which ones?
2. What has been the experience with drug and crime problems in smaller PHAS (less than 1250)? Is it increasing? In what ways? Have prevention activities been working for these PHAs to reduce crime?
3. What are your thoughts/comments on expanding the idea of 1:1 replacement to a larger area; perhaps outside of a housing authority's regular jurisdiction (for example, metropolitan-wide) along the lines of the "moving to opportunity" program?

**Response for the Record  
Robert L. Armstrong  
NAHRO President  
Questions of Rep. Bruce Vento  
March 17, 1994 Hearing  
Subcommittee on Housing and Community Development**

**1. Number of "large" housing authorities that did not receive Public Housing Drug Elimination Grant.**

In the 1993 funding round, the most recent under PHDEP, 48 of the 157 large housing authorities did not receive a competitive grant. It should be noted that because the current program is a competitive grant, rather than formula funding, only 132 of the 157 largest agencies applied for a grant in FY 1993.

NAHRO does not have complete data on each large agency which did not receive a grant, although HUD does maintain such information. Attached is a HUD review of 15 large LHAs which did not receive a grant in FY 1993.

Among the large agencies which did not receive a PHDEP grant in 1993 are Baltimore, MD; Cleveland, OH; Columbus, OH; Akron, OH; Bridgeport, CT; Washington, DC; New Haven, CT; Dade County, FL; Jacksonville, FL; Louisville, KY; Allegheny County, PA; Harrisburg, PA; New Orleans, LA; Albany, NY; Washington, DC; Meridian, MS; and Wilmington, DE;

**2. Experience with drug and crime problems in housing authorities with fewer than 1250 public housing units**

There are 268 "medium" size housing authorities which manage 501-1250 public housing units. These agencies are usually the main public housing agency in medium-size cities; or are suburban agencies located in metropolitan areas where crime and drugs know no boundaries.

Another 433 "smaller" agencies manage 251-500 public housing units. These agencies also may be the principal public housing agency in a medium-size city; or are suburban agencies in part of a metropolitan urban area. Many of these agencies with 250 - 1250 units tend to be located in the Western half of the United States and have sizeable low income housing responsibilities when their Section 8 programs are also considered.

Our member agencies in these categories report drugs, gangs, and crime are a continuing scourge in their public housing communities. They report they work closely with their local police departments, resident councils, youth and recreation departments, sanitation departments, to ensure that their public housing developments are maintained, that units are turned around quickly and not allowed to remain vacant, that modernization proceeds expeditiously to avoid long-term vacancies, that graffiti and vandalism is promptly removed.

Resident patrols and other means of involvement are also one of their key tools to defeat drugs and crime. After school programs for public housing children to help with homework and youth sports to work off excess energy and keep kids from getting into trouble are other ways these agencies cope with crime. Other youth educational, cultural, and recreational activities support self-esteem among youth and promote family and community values. And LHAs try to stay on top of basic maintenance, keeping grounds clean, trash picked up, lights replaced in hallways, damaged doors replaced, and the like.

All of these efforts deter crime in the first place, our agency members report. And that is half the battle. But most of these efforts rely on an array of other local public agencies and private service providers. The PHDEP program has been an essential component of this effort to entice these other providers into public housing communities and to convince them to stay. They want to know that the housing authority is in this for the long haul, too, and is committed to deterring and reducing drugs and drug-related crime in public housing. The PHDEP grant is the glue that holds these many service providers and the LHA together in common efforts in public housing communities.

Our members report they use PHDEP grants in four principal activities:

1. Drug Prevention	34%
2. Law Enforcement	27%
3. Security Personnel	12%
4. Drug Intervention	9%

### **3. One-for-one replacement outside originating jurisdiction**

NAHRO supports permitting some one-for-one replacement of public housing demolished or disposed in adjoining jurisdictions, provided the adjoining jurisdiction agrees to the replacement and, in fact, has the public housing or Section 8 units available at the time of relocation.

## Fifteen Grantees Review

A review of the fifteen large housing authorities provides the following information:

Meridian, MS did not submit an application for FY 1993.

Washington, DC did submit an application but the submission was late and therefore ineligible for funding.

Four applications did not receive passing scores (Wilmington, DE 48.5 points; Akron, OH 73.5 points; Harrisburg, PA 57.5 points; and Baltimore, MD 48.5 points).

The remaining nine applications received passing scores and would have been awarded grants if the funding had been sufficient.

Dade County, FL	94.5 points
Jacksonville, FL	93.5 points
Louisville, KY	91 points
Columbus, OH	90 points
Allegheny County, PA	90 points
Cleveland, OH	89.5 points
New Haven, CT	87 points
New Orleans, LA	84.5 points
Albany, NY	80 points



NA # REF	GRANT APPLICANT NAME	PROGRAM ASSGN #	C1	C2	C3	C4	FILE TOTAL	FILE AVG	FILE SCORE VARIANCE	REGION CUTOFF
LA001	Housing Authority of New Orleans	LA48DEP0010194	30	30	10	15	85			
SCORER No. 1		LA48DEP0010194	30	30	8	16	84	84.5	1	91.5
SCORER No. 2										
OH003	Cuyahoga Metropolitan Housing Authority	OH12DEP0010194	40	25	11	15	92			
SCORER No. 1		OH12DEP0010194	10	25	11	11	87	89.5	5	90.5
SCORER No. 2										

There is no record of application submitted by Meridian Housing Authority, Meridian, Mississippi.

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
PUBLIC & INDIAN HOUSING DRUG ELIMINATION GRANT PROGRAM (FY 1991)  
APPLICATION SCORES VALIDATION AND AVERAGE PRA/THA SCORES

HA # REF	GRANT APPLICANT NAME	PROGRAM ACRONYM	C1	C2	C3	C4	FILE TOTAL	FILE AVG	SCORE VARIANCE	REGION CUTOFF
<b>TX004</b>										
SCORE# No. 1	Housing Authority of the City of New Haven	(T76DEP0040193)	15	32	15	14	96			
SCORE# No. 2		(T76DEP0040193)	10	25	15	8	78	87.0	10	90.5
<b>NY009</b>										
SCORE# No. 1	Albany Housing Authority	NY06DEP0090193	40	25	14	14	83			
SCORE# No. 2		NY06DEP0090193	21	22	17	17	77	80.0	6	81.5
<b>DE001</b>										
SCORE# No. 1	Wilmington Housing Authority	DE76DEP0010193	10	16	14	9	49			
SCORE# No. 2		DE76DEP0010193	15	10	11	12	48	40.5	1	93.0
<b>PA008</b>										
SCORE# No. 1	Harrisburg Housing Authority	PA76DEP0080193	20	21	9	12	62			
SCORE# No. 2		PA76DEP0080193	24	16	4	9	53	57.5	9	93.0
<b>DC001</b>										
SCORE# No. 1	D.C. Department of Public and Assisted Housing	DC19DEP0010193	10	20	6	15	71			
SCORE# No. 2		DC19DEP0010193	25	11	6	17	59	65.0	12	93.0
<b>MD002</b>										
SCORE# No. 1	Housing Authority of Baltimore City	MD66DEP0020193	25	20	6	10	61			
SCORE# No. 2		MD66DEP0020193	10	14	6	6	36	48.5	25	93.0
<b>PA006</b>										
SCORE# No. 1	Allegheny County Housing Authority	PA78DEP0060193	10	32	17	20	99			
SCORE# No. 2		PA78DEP0060193	25	31	14	11	81	90.0	18	93.0
<b>FL001</b>										
SCORE# No. 1	City of Jacksonville Department of HUD	FL79DEP0010193	40	28	11	14	93			
SCORE# No. 2		FL79DEP0010193	18	27	12	17	94	91.5	1	95.5
<b>FL005</b>										
SCORE# No. 1	Dade County HUD	FL79DEP0050193	15	20	11	20	86			
SCORE# No. 2		FL79DEP0050193	45	30	13	15	103	94.5	17	95.5
<b>KY001</b>										
SCORE# No. 1	Housing Authority of Louisville	KY76DEP0010193	42	24	15	18	99			
SCORE# No. 2		KY76DEP0010193	28	20	15	20	83	91.0	16	95.5
<b>OH007</b>										
SCORE# No. 1	Akron Metropolitan Housing Authority	OH12DEP0070193	15	28	18	16	77			
SCORE# No. 2		OH12DEP0070193	10	24	18	18	70	73.5	7	98.5
<b>OH001</b>										
SCORE# No. 1	Columbus Metropolitan Housing Authority	OH16DEP0010193	27	29	18	15	89			
SCORE# No. 2		OH16DEP0010193	10	20	18	15	91	90.0	2	98.5

Statement  
of  
Barbara Burgo  
Resident of Gilpin Court  
Richmond, Virginia

before the  
Subcommittee on Housing and Community Development  
US House of Representatives

March 17, 1993

Thank you for inviting me here to discuss the financial problems I confront as a resident of public housing and a working parent of three children.

My name is Barbara Burgo and I have lived in the Gilpin Court public housing development in Richmond, Virginia since 1991. I am on the executive board of the Gilpin Court Tenant Council, which represents 2600 residents.

I have three children of whom I am exceedingly proud: an 18 year old daughter about to graduate from high school; a 16 year old son in the 9th grade; and an 8 year old daughter in elementary school.

My older daughter was recently initiated into the National Honor Society and has a 3.9 grade point average. My son works part-time as a teen leader and mentor to other teenagers in a program operated by the housing authority. The kids are quite proud of a tee shirt business they started last year, which made \$20,000 last year. My youngest, a daughter, is a straight "A" student at Carver Elementary.

As for myself, I completed a GED program in May so I have a high school equivalency degree. And I am planning to enroll in a local community college to get a degree in social work. I have worked most of my life since I was 14 years of age.

When I first moved into public housing in 1991, I worked as a waitress at F.W. Woolworth's. My annual income was \$7000. The rent I paid at Gilpin when I was employed was \$168.

I lost my job because the day-care provider for my youngest child would not pick up children from Gilpin because of its location. I therefore had no day care for my child and had to give up my job. I applied for and received Aid to Families with Dependent Children, Food Stamps, and Medicaid. For almost two years, 1991 through 1993, these public assistance programs kept my and my family afloat. My reduced income reduced the rent to \$43 per month.

During that time, I enrolled in a 9 month leadership training course at Gilpin sponsored by a number of corporate employers in Richmond. There were two classes of 18 women who lived at Gilpin and other Richmond public housing sites. The leadership training taught us conflict resolution; media relations; networking; and "agreeable disagreeing", among other skills. During that time, I applied for a position with the Friends Association, a local nonprofit which operates a day care and social service center. After waiting almost one year, I finally got a job as a Social Work Assistant at the center.

My job now pays me \$408 every two weeks, after taxes. And I have begun to save for some of the necessities which me and my children have put off for so long. The down side is that the rent tripled as a result of my increased income to \$279 per month! That, combined with the sudden loss of both Medicaid health insurance and food stamps was very hard to adjust to.



My food stamps had been worth \$279 each month. Now, I find myself, with two teenagers eating me out of house and home, spending about \$400 each month on food alone. I never realized how much food stamps helped with my basic living expenses until I had to go to the grocery store and try to stretch my own hard-earned dollars. I realized how frivolous I'd been in the past with my food stamp purchases.

After I pay the rent of \$279, that leaves me with about \$137 for everything else! If any of you have school-age children, you know how expensive they can be. For example, my son's French class just took a school trip to Baltimore. The bus cost \$20, plus the costs of lunch once he got there, which I simply did not have. I borrowed it from my mother. Thank goodness for Grandma!

Another necessity, which most people take for granted is the telephone. I can't afford one. It's taken me one year to save up to have my phone service turned on. Believe me, my children and I have looked forward to this past Monday, the 15th of the month for a long time. Because it's when I got paid and I finally had enough to have the phone turned on. My son says a phone will improve his social life! With two teenagers, I may not get to use it very much, but at least I'll be able to be connected to the rest of the world.

The loss of Medicaid once I became employed also was a shock to us. The minute you get a job, you lose your Medicaid benefits, which meant my three children were without health insurance for almost four months before my employment picked them up. During that time, my son injured his hand in his high school's football game. It required 8 stitches and a trip to the emergency room.

The hospital bill was \$279! I didn't have the money at the time and said I'd pay them installment payments over several months. But the hospital insisted upon being paid right away or else they would garnish my wages. The place where I work has a policy to terminate any employee whose wages are garnished. It was like a vicious circle.

I found out that Medicaid would cover the cost, because it had occurred within a grace period after we were taken off Medicaid. The hospital was paid. I didn't lose my job. My son's hand healed. But it was still scary.

It was especially hard on my children when I became re-employed. They thought all our problems would be over, that they could have the clothes they wanted, we could go out to eat or a movie, that we wouldn't have to live so close to the table anymore, always counting our pennies. But, in fact, the income I earn, after taxes, rent, food, and health care costs is almost less than when we were on public assistance.

There are times when I think I did much better on lesser income through public assistance programs. Taxes weren't deducted. The rent remained steady. My children had health care coverage. And food costs seemed to be more manageable with food stamps.

What I'm trying to tell you here is that it is not easy being a low income wage earner in today's world. I'm trying to get ahead by keeping a steady job, raising my children right and seeing that they have at least a few of the clothes and outside activities that their peers do, and pursuing my own career path toward a degree in social work.

There are lots of other mothers in my same position. It would certainly help if you could see that we, at least get a break on the rent, when we're out there earning a living and trying to get ahead.

Thank you for letting me speak to you today.

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*Testimony of  
Andrea Duncan, President  
Council of Large Public Housing Authorities*

*Before the  
Housing and Community Development Subcommittee  
of the Banking, Finance and Urban Affairs Committee  
U.S. House of Representatives*

*On  
H.R. 3838, The Housing and Community Development Act  
of 1994*

*March 17, 1994*

**Testimony of Andrea Duncan  
before the  
Housing and Community Development Subcommittee  
of the  
House Banking, Finance and Urban Affairs Committee**

Thank you, Mr. Chairman, for inviting the Council of Large Public Housing Authorities to testify today. I am Andrea Duncan, its President, and the Executive Director of the Louisville Housing Authority.

We are ever grateful to you for your special leadership in public housing and to Ms. Roukema and your other colleagues for their support. You will be pleased to know that your efforts for us have been rewarded. Despite increasingly difficult urban environments, large PHAs such as Atlanta, Boston, Los Angeles, Newark and San Francisco have moved off the troubled list and over forty large PHAs have been found to be high performers.

We are encouraged by the quality of team that Secretary Cisneros has assembled at HUD; we applaud key appointments that have come from the practitioner ranks of the public housing industry. And we are encouraged that these leaders are calling upon the industry itself for major direction in the reinvention process, supporting those who perform well and ridding the industry of rules written for those few whom we do not trust. Under the public housing statutory and regulatory review program, five study groups from the industry are making recommendations to streamline and reform the public housing program.

As the leader of a sixth work group of high-performing housing authorities, I am certainly hopeful that the department will be embracing our recommendations: 1) that high-performing PHAs represent "low risk" for the department, that they have proven competence, and as such should be automatically released from *all* regulatory requirements that have to do with "how" they run the business; 2) that high performing PHAs be allowed to keep the dollars generated from the release of these costly bureaucratic requirements, and 3) be allowed to serve as laboratories of innovation<sup>1</sup> for developing new models of public housing service delivery. To the extent that statutory changes are necessary to implement such a bold new direction, we hope that Congress will be supportive of these initiatives.

This release of excessive bureaucratic micro-management by the public housing program is the single improvement that would have significant dollar cost savings -- a source of new programmatic dollars available for the future, and giving high performance PHAs the programmatic flexibility (regulatorily and statutorily) to develop new models is the beginning of a true reinvention of the public housing program.

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<sup>1</sup> Osborne, David, *Reinventing Government*.



We applaud the Housing and Community Development Act of 1994, H.R. 3838, as very progressive legislation and we support it; there are also important features in H.R. 3888 introduced by the ranking minority, Ms. Roukema, that we hope become law.

**I. H.R. 3838's Rejection of HUD's Startling and Disabling Cuts in Public Housing in Its FY 95 Budget Is Most Welcome**

As you are aware, HUD proposes the lowest percentage of the Performance Funding System funding for operating subsidies since 1981 -- a shortfall of 16% from the most conservative estimate of FY 95 needs. HUD's funding for modernization -- a cut of a half billion dollars -- would take us back to 1986 levels. The \$150 million requested for development and major reconstruction of obsolete projects -- a cut of 75%, with the funds opened to amendments for prior-year projects -- is tantamount to repeal. The HUD Budget Summary does not even have a description of the development program. Last, funding for revitalization of the most severely distressed public housing would be reduced over a third to \$500 million. All in all, HUD would shrink public housing by over \$1.1 billion in vital capital funds below the current (FY 94) appropriations and would provide about 80% of the needed PFS operating support as estimated by CLPHA, PHADA and NAHRO. Even HUD concedes the level should be \$2.9 billion, or \$400 million above the request. Its request assumes unrealistic increases in residents' income.

We welcome most of the funding levels proposed by H.R. 3838, and we appreciate the separate authorizations for major reconstruction of obsolete projects and for replacement housing units, but we urge you to authorize the \$3.3 billion for operating subsidies that CLPHA firmly believes is necessary for decent public housing.

The 1994 shortfall of \$144 million dollars has already forced the Louisville Housing Authority to abandon \$700,000 worth of physical improvements planned for our properties this year. The cuts for 1995, would shortchange Louisville by another \$2 million in operating subsidy, causing us to choose between maintenance repairs rather than replacements, select cheaper quality materials (hollow core doors versus solid core), eliminate resident services at newly-funded family resource centers (tutoring for resident youth, parenting classes, drug education programs), among others.<sup>2</sup>

The HUD proposed budget would reverse the progress now underway throughout American public housing. The operating cuts would result in expensive deferred maintenance, reduced security and social services, could create longer vacancies due to

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<sup>2</sup> Significantly, these services are preventive measures which HUD identifies as a necessary part of its "continuum of care" in the Federal homelessness policy. "Federal Plan to Break the Cycle of Homelessness," unreleased draft.

slower turnaround and delayed repairs, costly litigation for negligent toxic and safety conditions, and a dispiriting deterioration in the communities of the 3.4 million persons -- families, elderly and disabled -- in our apartments and townhouses. It is idle for the department to speak of increased focus on crime in public housing when PHAs are not funded to even fulfill the basic functions of a landlord.

The HUD budget cannot be justified. It turns its back on American housing policy, especially as fully debated in the *Cranston-Gonzalez National Affordable Housing Act of 1990* and in many appropriations bills, which has established public housing as an integral part of our efforts to house low income people and to relieve homelessness.

HUD's action is not the result of budget constraints; it boasts of being one of only four departments to get increases over FY 94, totalling \$1.8 billion. HUD's budget is rife with increases: \$1.5 billion more for certificates; almost double this year for homeless activities,<sup>3</sup> and a ream of new initiatives and of substantial earmarks in already-underfunded established efforts, such as TOP in mod and LIFT in CDBG.

Moreover, there is no "backlog" of unspent funds in modernization or other activities that warrants the public housing reductions, as was established in the Secretary's dialogue with Mr. Frank when the Secretary recently testified here. The mod spendout charts, put in the record at the time, demonstrate that PHAs are spending 85% of the mod funds within 3.25 years after receipt from HUD, a commendable rate; the hundreds of us who are even with the pipeline should not be penalized for the few housing authorities stuck in it; and do not punish all residents who are awaiting better housing. To step back from current mod levels would undermine the fine reform you made of the CIAP modernization program in NAHA, shifting from an uncertain, annual grantsmanship competition to predictable, needs-based, planning-oriented, formula grants.

Moreover, close to 10,000 jobs would be lost from the mod, severely distressed and development cuts -- jobs and reconstruction essential to revitalization of our inner cities.

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<sup>3</sup> We have no quarrel with increased efforts for homelessness, but not at the cost of public housing. One of the root causes for homelessness is the lack of permanent affordable housing. In Louisville for example, our homeless population has grown mostly because of families with children who cannot find affordable housing. To the extent that we can retain the public housing development program as one choice in the "continuum of care" that Secretary Cisneros speaks of, we will be offering more choices to those who would otherwise fall into the ranks of homelessness.

## II. The Merger of the Certificate and Voucher Programs Is Reinvention at Its Best

CLPHA values section 8's original flexibility in providing affordable housing -- much of which has been lost. Excessive earmarks have taken away virtually all local discretion from PHAs and increasingly have restricted eligible families to very special cases, for example, family self-sufficiency, family reunification, moving to independence, elderly independence, shelter plus care, and housing for AIDS victims. All are worthy, but since they have been funded as set-asides and not increases, the unadjoined family finds it difficult to be served. Other harmful limitations have been the elimination of long-term assistance, the limit on the quantity of project-based assistance that a PHA can provide and the constant struggle with the past Administration to enable PHAs to use section 8 buildings operated by nonprofits affiliated with a PHA. H.R. 3838 takes important steps in restoring flexibility.

We endorse the consolidation itself, of course, but also your making project-based and tenant-based fungible without restriction. This change allows a PHA to take the local market into account in how it houses poor families. We also applaud your making it perfectly clear that a PHA can use section 8 in buildings owned by a nonprofit affiliate. A remaining step is for the appropriators to provide, as your bill does, for long-term assistance so that PHAs and others can attract developers and financing where incremental, permanent low-income housing is needed.

I might add that if our development program is to be eliminated, then long-term project-based assistance becomes an essential tool for the creation of more low income housing, and to meet replacement requirements as we move to weed out inhumanely designed and overbuilt family developments. We would accept such a change if PHAs were funded at a proper level of project-based assistance.

Lessons learned from the voucher program include that some families are willing to pay more than 30% of income for rent to get what they want. While we fully share the Chairs' concerns about families overpaying, as we testified last November 3, we believe that some section 8 families should be able to pay up to 35% of their income on rents up to 132% of the fair market rent to enhance their choices. Such an "exception" class would broaden choice of neighborhoods.<sup>4</sup> We are appalled at the inconsistency of HUD's proposal to reduce the base for FMRs to those of the lowest 40% of recent movers and to cut administrative funds that help households move with its laudable aim of increased choice in more affluent areas.

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<sup>4</sup> For additional comments on the merger of certificates and vouchers, please see CLPHA's testimony before the Committee on November 3, 1993.

*Mixed Populations.* We endorse section 143's new section 8(m)(2) giving PHAs the discretion to give priority to non-elderly disabled persons. However, this limited power should be available to every PHA and not just to "a public housing agency that serves more than one unit of general local government," as the provision is now written. As you know, most PHAs serve only one local government jurisdiction. Your provision complements the HUD budget that would earmark a share of the section 8 assistance for nonelderly disabled persons, but has the advantage of giving the discretion to do so at the local level where it can best be exercised. Our comments on the broader problems in designating developments for the elderly are treated later in the testimony.

*Administrative Fees.* Thank you for safeguarding the administrative fee at 8.2%. HUD's proposal, first, to establish a new, undefined base on which the fee is calculated and, second, to reduce the fee to 7.65% for the first thousand units and then 7% on the remainder, with other adjustments for "stayers," would devastate large and small agencies. The larger agencies need the funds earned from the fees to operate their PFS-starved conventional stock, the smaller agencies don't have an adequate administrative basis to operate at the reduced fee. PHAs' only option would be to withdraw from the program. OMB and HUD are constantly asserting that the fee is too high, but over the years they have yet to produce an analytic document justifying their contention. There is no authoritative work on this issue -- by HUD, GAO or anyone else. We suggest the government do some homework before they make assertions about the fee. The Appropriations Committees, as well as your own, have regularly directed them to do so without success.

*Homeownership Option Section 8(t).* Although we are still studying the details of this provision, we welcome an authorization to use the section 8 subsidy to create ownership. In Louisville, at College Court, we have transformed a former project into condominium opportunities for our residents with stable incomes. The availability of a limited section 8 subsidy would greatly enhance our ability to provide such choices for other residents. Please make sure the statute expressly provides for ownership under a condominium or cooperative arrangement, as well as in the traditional mode, and gives a priority to public housing residents to acquire their current units or to move "up and out."

*Family Self-Sufficiency Disconnect.* The Family Self-Sufficiency (FSS) program should be disconnected from incremental section 8 certificates and vouchers. CLPHA members support the objectives of FSS. But the effort should be funded separately, not tied to some group who gets "FSS certificates," and made available to those interested and capable. Indeed, we lobbied for years for the Gateway acts. They simply need adequate funding.



### III. Community Partnerships Against Crime (COMPAC)

The Public Housing Drug Elimination Program (PHDEP) has been of significant help to many PHAs seeking not only to enhance security, but to engage our residents in purposeful activities that should reduce criminal behavior. COMPAC builds nicely on PHDEP and we salute the Secretary for his initiative.

We suggest the statutory language in H.R. 3838 be clarified to overcome shortcomings of PHDEP: namely, (a) erratic awarding of grants among PHAs; and (b) lack of reliable multi-year funding needed to recruit professional staff, to develop meaningful efforts, and to gain the confidence and cooperation of the residents.

The grant funds should be focused where the problems are and not spread out to each of 3200 housing authorities, as some have proposed. HUD says that 85% of the murder/robbery crime is in those agencies with 1250 or more units, the "large" PHAs, and our experience confirms this. Accordingly, CLPHA urges that the legislation establish that not less than 75% of the funds be awarded to such PHAs proportionate to their number of units. HUD intends to distribute in this manner FY 94 PHDEP awards pursuant to the FY 94 Appropriations Act and FY 95 funds pursuant to regulation. However, a statutory provision embodying this distribution is called for. The issue is too important to be left to the agency's discretion. The history of awards confirms this. In FY 93, authorities in Akron, Albany, Baltimore, Cleveland, Columbus, Miami (Dade County), Harrisburg, Louisville, Memphis, New Haven, New Orleans and Washington, D.C., major cities, received no funds while monies were awarded to many small agencies. For example, in my case, Louisville received no funds, but Richmond and Morgantown, Kentucky won grants based on a total of 10 and 11 drug arrests respectively all year. Louisville documented more drug arrests than all the other PHDEP winners in Kentucky put together! Additionally, Baltimore received no funds, but the resort town of St. Michael's on the Eastern Shore did; Miami received no funds but the elite resort of Boca Raton did, and so on.

One obvious reason why the large PHAs need the funds is that they have huge developments that are configured away from street frontages to which the local police confine their activities, namely the high rise towers and the interior open spaces. Such unpoliced areas do not typically exist in the smaller PHAs. If further proof of need were called for, it is the fact that every large PHA has applied for funding every year of PHDEP competitions, while over two thousand smaller PHAs have never applied. To distribute the funds on a per unit basis to all PHAs large and small, elderly or family, is to ignore why PHDEP and now COMPAC came to be -- mounting big-city crime. With constrained funds, now is not the time to dilute their impact by spraying them around to all 3200 PHAs.



#### IV. Rent Reform

We, together with NAHRO and PHADA,<sup>5</sup> continue to support the straight-forward provisions of the *Cranston-Gonzalez National Affordable Housing Act*, which restored the pre-1981 ten percent earned income deduction in calculating rent. Working families deserve no less, especially when we recall that the 1981 Omnibus Budget Reconciliation Act raised their rent 20% while taking away this deduction and their family medical deduction. With the current priority on "welfare to work" initiatives and health care reform, both these deductions should be restored. No method of rent reform is simpler, fairer, less bureaucratic. CLPHA, using HUD's data base, calculates the cost of implementing these provisions for public housing residents at \$85 million for the earned income deduction and \$19 million to make a start at giving families the health care deduction now available to elderly; if necessary, we suggest the earned income deduction could be started at a lesser percentage.

We also endorse the department's proposal for an 18-month "disallowance" of rent increases due to an unemployed resident becoming employed. However, this limited measure only delays the day when work is penalized by the 30% rent income ratio.

#### V. Ceiling Rent

We appreciate HUD's initiative and section 112 of your bill on ceiling rents. However, implementation under both must await the regulatory process, which can take years at HUD. Despite this Committee's complaints and even efforts to provide self-implementation, HUD has yet to show any reinvention in accelerating its rulemaking process. Consequently, we suggest that you make at least one form of ceiling rent self-executing while the department develops other ceiling rent choices through its regulations. Section 203(b)(3)(B) of S. 1299 has such a self-executing provision; it allows PHAs to set as the top rent in a development the 95th percentile of the rents in a project, a simple arithmetic calculation that does not need HUD involvement. This proposal, we believe, has the support of the department.

#### VI. Revitalization of Severely Distressed Public Housing

In the light of the Final Report of the National Commission on Severely Distressed Public Housing, Congress enacted HOPE VI, dubbed by HUD as the Urban Revitalization Demonstration (URD) and section 24 of the Housing Act, also aimed at the revitalization of severely distressed developments, and at bringing new opportunity to the residents. Over FY 93 and FY 94, more than a billion dollars has been appropriated. The authors of the

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<sup>5</sup> NAHRO and PHADA, in fact, support a 20% earned income deduction.

legislation sought to have the effort treated by HUD as a unified program, free of the individual, obstructive program regulations, handbooks, and practices which have hampered past efforts to reconstruct. We are now learning, as HOPE VI-PHAs -- many represented on this committee -- attempt to proceed, that HUD is struggling to kick its old habits. Thus, we welcome the efforts of Ms. Roukema and the co-sponsors of H.R. 3888 to streamline section 24 of the Housing Act. We recognize that H.R. 3838 also contains improvements to section 24 which were requested last year by the department, but subsequent experience with HUD's efforts to implement HOPE VI shows that the broader reforms and deregulation in H.R. 3888 are called for. Some of those reforms are contained in S.1299. They will help greatly to expedite this potentially wonderful program. At present, the HOPE VI efforts are impeded by excessive reliance on the old dictates of the Housing Act of 1937, especially section 18, and of site and neighborhood rules that have little bearing in replacing units demolished as part of reconstruction and revitalization. Ms. Roukema's work cures those ailments and, most important, sets a course of reinvention that carries out the "single program" approach promised by the HOPE VI funding.

#### VII. Other Aspects of H.R. 3888

We also appreciate other efforts in H.R. 3888 to free the development program from the encrusted regulations that were designed to thwart, not further development, and hope to work with the staffs of the committee in refining the language. Regulatory changes to improve the development program that are being discussed at the department are too limited to be of meaningful assistance.

We cannot support the notion in H.R. 3888 of a minimum PILOT payment absent a compensating appropriation of operating subsidies; we have no other source of payment. Especially this is so in FY 94 when we are being short-funded \$144 million of our PFS operating subsidies and face even worse treatment in FY 95.

#### VIII. Disappointments

*Elderly-only.* Elderly residents in public housing -- unlike their affluent contemporaries in private housing -- continue to face the burden of living with single persons generations younger, who often suffer serious mental impairments. Headline stories continue to pop-off throughout the country about assaults of all kinds. Fears mount among those old persons who should be granted peace. A year and half after the *Housing and Community Development Act of 1992*, with its provisions intended to solve the problem, HUD has issued proposed regulations that are found wanting by virtually all. The proposed regulations, quoted above, underscore that HUD remains a "Mother, may I" agency with proposals that add paperwork and delay and that may in fact frustrate the whole process. HUD's Fair Housing/Equal Opportunity Office and some mental disability advocates continue to ignore that the elderly in public housing already have a population of elderly

that is 30% mentally disabled. They continue to make poor elderly women the victims of a system that downgrades their welfare to give priority to a class of nonelderly persons who should, in fact, be mainstreamed with other nonelderly persons. There will be little progress until Congress provides that the nonelderly disabled singles should be housed with other nonelderly singles, just as elderly disabled persons are housed with the elderly. Incidentally, many of these same advocates recently refused to support CLPHA's and HUD's position that there should be a significant set-aside of certificates for the non-elderly mentally disabled to give them the broadest choice and to free them from the need to be institutionalized in buildings of old persons.

HUD refuses to allow PHAs to move forward under the allocation plans of Title VI of the *Housing and Community Development Act of 1992*, notwithstanding a sound legal basis for doing so -- as you, Representative Kleczka, other concerned members and CLPHA's counsel have pointed out. Instead, HUD's proposed regulations reveal that it has not yet accepted the fact that the poor PHA elderly are just as entitled as well-off elderly to live separate from the young, be they disabled or not. HUD, and advocates who seem to hold sway on this issue, don't get it or don't want to get it. In the meantime at many authorities, the elderly no longer apply for the housing intended for them; instead the buildings are increasingly becoming highrise asylums, while HUD fiddles and ignores the plight of the elderly and the advocates insist on "mainstreaming" young disableds into these ghettos.

CLPHA's comments to the proposed rules go to these points:

"...CLPHA members have tried to keep the commitments they made to their elderly residents who thought, when they entered elderly housing developments, that they would have the same dignified retreat afforded senior citizens of middle and upper incomes. The issue is not disability, but age; a high proportion of the elderly are themselves disabled. CLPHA members wholly support the objective of offering people with disabilities the most integrated housing possible; however, our members have never believed that mixing young people with disabilities with resentful or fearful elderly persons was genuine integration. Our members respect the desirability of offering disabled residents a choice of living situations; but likewise our members wish to offer their elderly residents a choice -- that of living with young people or not -- which is absolutely legitimate and legally proper.

We recognize the possibility that young people with disabilities who cannot live with elderly people and for whom a PHA cannot find alternate situations may be left living with each other, and not be generally integrated with people without disabilities. That result, however, is far less the result of the choice of elderly people to live with each other, than it is the result of a legislative policy to give preference to people with disabilities over other non-elderly. This legislative policy is, presumably, approved of by advocates for the disabled, and CLPHA has certainly never taken a contrary position. We

simply make the point that any limitation on the ability of PHAs to provide truly integrated housing to non-elderly disabled people is largely because PHAs are barred from admitting single people *without* disabilities so long as people with disabilities require housing."

We urge the Committee to revisit this issue and Title VI. No relief for the elderly is in sight.

*Local Preference for Admission.* Not yet implemented are the provisions of either the *Cranston-Gonzalez National Affordable Housing Act of 1990* or of the *Housing and Community Development Act of 1992*, which respectively allow 30% and 50% of admissions to public housing to be according to local, rather than federal preferences. These provisions were adopted in order to create a more socially and economically diverse population in public housing developments. Ironically, HUD in its FY 95 Budget would reduce the operating subsidy on the basis that higher income residents will be living in public housing as a result of these provisions which it has failed to implement! We urge the Committee to require that HUD account for this indefensible three-and-a-half-year rebuff of the Congress.

*Speedup of Modernization Funds.* While OMB continues, inaccurately, to speak of a "backlog" of unspent modernization funds in the hands of the PHAs, new regulations that would reduce the real delay -- that is, the fifteen months it takes HUD after the appropriations are enacted to contract the monies to the PHAs -- remain to be implemented. Proposals made to the Secretary by CLPHA within weeks of his taking office last year would save many months of time and simplify matters considerably. This line of business is yet to be reinvented.

### CONCLUSION

We again thank you, Mr. Gonzalez, for the spirited and informed support that you have given to the residents and agencies of public housing. We think your bill represents progress for all and we look forward to working with the Committee to advance further recommendations regarding it.



Chairman Gonzalez'



**Additional Questions**

**Hearing -- March 17, 1994**

(to Ms. Andrea Duncan)

**Council of Large Public Housing Authorities**

- 1) One of the central purposes of rent reform is to improve the economic mix in public housing developments. How specifically does an increased economic mix benefit public housing developments?
- 2) How do current public housing rent determination rules disadvantage working families?
- 3) H.R. 3838 contains several rent reform initiatives proposed last year by HUD that are designed to assist working families who live in public housing. One of these provisions would disallow counting as earned income -- for 18 months -- the income of newly employed public housing residents who had been previously unemployed for a year. In your opinion, is this 18 month period a long enough period of time for newly employed public housing residents to adjust to their new economic status before they face possible rent increases?
- 4) H.R. 3838 contains a HUD initiated rent reform proposal that would make ceiling rents for public housing units reasonably related to the rental value of the units. Why do ceiling rents often exceed the reasonable rental value of public housing units, and how does this impact on working families?
- 5) The proposed FY 1995 HUD budget would substantially reduce public housing operating subsidies. Given that public housing rents do not cover the operating costs of public housing units, how will this proposed reduction impact on public housing developments? What kind of day-to-day maintenance in public housing developments will suffer as a result of these proposed reductions?
- 6) Various proposals have been raised about relaxing the one-for-one replacement requirement for public housing demolished or disposed in a "severely distressed" project. What is the position of your organization with regard to these proposals?

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RESPONSES TO ADDITIONAL QUESTIONS FROM CHAIRMAN GONZALEZ, HOUSE BANKING SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT, BY ANDREA DUNCAN (CLPHA) FROM HEARING ON H.R. 3838, HOUSING AND COMMUNITY DEVELOPMENT ACT OF 1994, MARCH 17, 1994

1. HOW DOES AN INCREASED ECONOMIC MIX BENEFIT PUBLIC HOUSING DEVELOPMENTS?

An increased economic mix benefits public housing developments and individual households. The median income of current public housing residents is only about 17% of the median income for the areas in which they are located. The concentration of the lowest income families, most on public assistance, has resulted in the devastating destruction of the social fabric of these communities. In combination with regulation changes that created powerful disincentives for employment, these developments have very few, if any, households that participate in the mainstream of economic life. Families that remain in public housing are often completely isolated from those who get up every day and go to a job. These developments desperately need the example and leadership of those who are gainfully employed and climbing the ladder of self sufficiency and economic success. By removing barriers to mixed income developments, individual households can seek employment, increase their earned income and save money to secure private housing without being penalized for taking steps to become self sufficient. Furthermore, mixed income developments reduce the need for operating subsidies by increasing rental income.

2. HOW DO CURRENT PUBLIC HOUSING RENT DETERMINATION RULES DISADVANTAGE WORKING FAMILIES?

The current HUD rent determination rules make no distinction between earned and unearned income. A recipient of unearned income receives a 100% of the amount they are eligible for. A recipient of earned income is responsible for a range of deductions, including

but not limited to FICA, federal taxes, state taxes, health insurance, union dues, etc. Such deductions can total more than 20% of a person's gross income. However, the rent is based on 30% of the gross income. This means that of every dollar earned by a working family, less than half goes to the family.

3. IS AN 18 MONTH DISALLOWANCE PERIOD LONG ENOUGH FOR NEWLY EMPLOYED PUBLIC HOUSING RESIDENTS TO ADJUST TO THEIR NEW ECONOMIC STATUS BEFORE THEY FACE POSSIBLE RENT INCREASES?

Families moving from unemployment to earned income face huge financial demands on their income combined with the withdrawal of support services and health coverage. Permitting residents to stabilize their family income during a disallowance period before rent increases go into effect removes a serious disincentive for employment. However, in order to be effective it must be coupled with a deduction for earned income, removing the ongoing disadvantage of basing rent on gross earned income. The 1990 National Affordable Act authorized a 10% deduction from all earned income. This authorization has never been funded. We strongly urge that the earned income deduction be fully funded and implemented.

Disallowance periods should not create undue administrative burdens for housing authorities and residents. Recertifications and increases should coincide with presently required annual recertifications rather than add repeated interim recertifications. Rent increases could take place at the second annual certification for newly employed residents. Phasing in large rent increases should be considered.

4. WHY DO CEILING RENTS OFTEN EXCEED THE REASONABLE RENTAL VALUE OF PUBLIC HOUSING UNITS, AND HOW DOES THIS IMPACT ON WORKING FAMILIES?

As people move up the income scale, they usually spend most of their additional discretionary income on items other than housing. As a result, the ratio of housing expenditures to income goes down. In public housing, working families do not have the same benefit of additional discretionary income because their rent remains a fixed percentage of gross income. Reasonable ceiling rents allow wage earners to use additional income to lay the foundation for economic advancement and the transition to private housing.

The current HUD ceiling rent policy allows housing authorities to establish ceiling rents based on the sum of average operation costs plus imputed debt service for the development cost of the project plus all subsequent capital improvements. (CLPHA contends that HUD's use of "imputed debt" is not supported by statute.) The result is ceiling rents that far exceed

market value in most areas, making them of little use to upwardly mobile families. Housing authorities should have the flexibility to set ceiling rates based on the market conditions in their localities using a rent reasonableness test similar to the Section 8 program or a percentage of the average highest rents paid by residents. The ability to establish ceiling rents should be self-implementing and not require prior HUD approval.

5. HOW WILL PROPOSED REDUCTIONS IN PUBLIC HOUSING OPERATING SUBSIDIES IMPACT ON PUBLIC HOUSING DEVELOPMENTS? WHAT KIND OF DAY-TO-DAY MAINTENANCE IN PUBLIC HOUSING DEVELOPMENTS WILL SUFFER AS A RESULT OF THESE PROPOSED REDUCTIONS?

The proposed reductions in operating subsidies will cripple ongoing maintenance efforts in public housing. Certain operating costs are not discretionary and must be paid, such as utilities and insurance. The proposed reductions would severely impact other discretionary operating costs such as routine maintenance, emergency maintenance, grounds keeping and other resident services. Some housing authorities would sustain an effective reduction of over 30% in these operating costs.

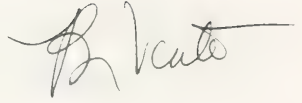
Operating subsidies are a critical source of income because rents do not cover operating costs. If private landlords were required to reduce their rents by 15%, many would go bankrupt. If Section 8 landlords had to slash their fair market rents by 15%, they would not participate in the program. Housing authorities have all the responsibilities of private landlords in addition to a vast array of regulations governing operations and resident selection. The impact of reductions would be keenly felt by residents. Routine maintenance items would be deferred. Responsiveness to emergency maintenance calls would be impaired. The physical appearance of developments would decline. Resident services would be diminished. Reductions in operating subsidies can only result in an increase in the long term modernization needs because of the impact on routine maintenance functions.

6. WHAT IS THE POSITION OF CLPHA WITH REGARD TO PROPOSALS RELAXING THE ONE-FOR-ONE REPLACEMENT REQUIREMENT FOR PUBLIC HOUSING DEMOLISHED OR DISPOSED IN A "SEVERELY DISTRESSED" PROJECT?

Replacement requirements for severely distressed projects must allow housing authorities to be responsive to local conditions and enable density and vacancy reductions. Housing authorities should have the option to replace up to 50% of long term vacancies or where demolitions exceed 100 units with Section 8 certificates or vouchers. Appropriations for development are inadequate to support the present replacement requirements. Section 8



project based assistance (PBA) also should be available to replace short term vacancies and occupied units. Fifteen year PBA certificates can be used to leverage resources from other sources and provide sufficient income to maintain properties adequately. Unit size mix of replacement units should match the current needs of residents and applicants rather than the units being replaced. The option to replace outside of the jurisdiction should be available.

A handwritten signature in dark ink, appearing to read "B. Vento", with a long horizontal flourish extending to the right.

ADDITIONAL QUESTION OF  
CONGRESSMAN BRUCE F. VENTO  
FROM THE HEARING OF THE HOUSING  
AND COMMUNITY DEVELOPMENT SUBCOMMITTEE  
MARCH 17, 1994

FOR ANDREA DUNCAN, CLAPHA

1. What are your thoughts/comments on expanding the idea of 1:1 replacement to a larger area; perhaps outside of a housing authority's regular jurisdiction (for example, metropolitan-wide) along the lines of the "moving to opportunity" program?

(Ms. Duncan's Response to Congressman Vento's Question--3/17/94)

### **One-To-One Replacement To a Larger Area**

We would enthusiastically endorse expanding one-to-one replacement outside a PHA's jurisdictional boundaries. Louisville is an excellent example of the usefulness of this proposition. In the Louisville/Jefferson County metropolitan area, there are two housing authorities. The Housing Authority of Louisville (HAL) is limited to the city's boundaries and operates a large public housing program (6,000 units); the Jefferson County Housing Authority operates the Section 8 program for the entire metropolitan area.

The Louisville Housing Authority is involved in an active public housing development program, but all of this activity is going on within the city limits (our jurisdiction). Moreover, HUD's impactation criteria rule out our developments in a majority of city neighborhoods, even though many of these neighborhoods striving towards revitalization could use our scattered site units as one option to help neighborhood redevelopment. Many residents advocate reinvestment in the neighborhoods in which they already reside. So, our PHA's attempts at one-for-one replacement solely within our jurisdictional boundaries is a difficult challenge, since there is little land available but for the impacted areas.

If PHAs are not permitted to develop outside their jurisdictions, these geopolitical boundaries prohibit opportunities for low income persons and/or people of color from living in other areas, if they so desire, thus perpetuating segregated and exclusive housing choices. And, in the case of the Louisville metro area, there is significant land available, much closer to where most of the major employment centers are located.

As stated earlier, Jefferson County which surrounds the City of Louisville allows its PHA to be primarily a Section 8 administration. The county has no production program at all that addresses the needs of low income families.

For those PHAs trying to do away with large behemoth public housing developments inherited from the past, and trying to minimize the existent over-concentration of poor people, we absolutely need the flexibility (assuming we are still required to do one-for-one replacement) to be allowed to develop outside our jurisdictional boundaries. To do anything else, only further perpetrates existing segregation and racism which limits choices of housing, neighborhood, proximity to jobs, and a host of other opportunities to which persons of color and low income persons should have access. An important component of this strategy, however, will be a requirement for the surrounding jurisdictions to accept the housing production a city PHA could provide.



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**Testimony of J. Richard Parker  
Executive Director  
Athens, Georgia Housing Authority  
Representing the  
Public Housing Authorities Directors Association**

**March 17, 1994  
United States House of Representatives  
Committee on Banking, Finance & Urban Affairs  
Hon. Henry Gonzalez, Chairman  
Hon. James Leach, Ranking Republican**



Mr. Chairman, and members of the committee, my name is Rick Parker. I am the Executive Director of the Athens (GA) Housing Authority, which administers 1287 units of public housing. Today, I am representing the Public Housing Authorities Directors Association (PHADA). As you know, PHADA is a non-profit association representing approximately 1,500 housing authorities from all over the United States.

On behalf of PHADA's entire membership, I want to thank you for providing our association with this opportunity to testify before the committee. Let me also thank the members of this panel for your outstanding work toward improving the many programs that we as housing professionals oversee. We look forward to working with you throughout the session on this all-important housing reauthorization bill.

For the purposes of this particular testimony, I would like to focus on three major areas. First, I would like to explore with the committee PHADA's approach to rent reform, an issue which has become one of our foremost priorities. Next, I would like to address the other provisions in Chairman Gonzalez' legislation, H.R. 3838. Lastly, I would like to touch briefly on PHADA's perspective in relation to appropriations as embodied in HUD's FY 1995 budget.

Before moving on to the specifics of my testimony, permit me to say that PHADA is very appreciative of the many different efforts on the issue of rent reform. Secretary Cisneros, Assistant Secretary Shuldiner, and the rest of the HUD leadership should be commended for addressing these needs and seeking passage of rent reform measures. Representative Joseph Knollenberg, too, deserves thanks for his devotion to solving this problem with the introduction of H.R. 2957. We are deeply appreciative for this committee's diligence in introducing H.R. 3838 and the incorporation of rent reform measures in this legislative proposal. Representative Marge Roukema deserves special accolades for formulating H.R. 3888, a bill which provides for most of the concerns covered in our own legislative proposals. Of all the models for rent reform currently under consideration, the public housing practitioners represented by PHADA and GAHRA believe H.R. 3888 has the most positive features.

We believe all of these pieces of legislation provide elements of a sound approach to the problems hindering low-income housing communities today. These bills, particularly Representative Roukema's legislation, would make desperately-needed improvements to existing rent statutes, and PHADA generally supports these initiatives. However, we would like to offer a few suggestions on how to make all of these proposed bills even better.

### Rent Reform

Mr. Chairman, rent reform is an issue dear to PHADA's heart, and our association's top policy-related priority. We believe that if Washington is to truly enhance the 10,000-plus public housing communities throughout this nation, it must offer our residents a reasonable opportunity to work and improve their own lives.

Unfortunately, the current public housing rent structure imposes a stiff penalty on entrepreneurial residents who desire to move into the workforce. Today, public housing residents are actually worse off when they get a job. Our residents are intelligent, industrious people who have come to realize that, in the public housing system, work simply does not pay. On the contrary, residents are punished for exercising the very type of behavior our society tells them is desirable. Without improvements to existing rent laws, therefore, we can spend billions on bricks and mortar, upward mobility programs, and social services, and yet still come up short in the campaign to make public housing a better place for low-income families to live. That is why the inclusion of workable, meaningful rent reform in your legislation is so critical.

Section 111 of H.R. 3838 provides elements of rent reform by allowing public housing authorities (PHAs) to exempt newly-employed residents' earnings from rent calculations for a duration of eighteen months. In addition, the bill allows HUD to set new ceiling rents through rulemaking. The provisions are similar to those offered in Senate bill 1299, adopted by that chamber last autumn.

We believe that the approach reflected in S. 1299 and H.R. 3838 is only a partial remedy to the problems I have described. I should add that H.R. 3838 differs slightly from S. 1299 in that the eighteen month disallowance ends abruptly after the year-and-one-half period expires. We raised a potential problem with the Senate on this issue, asking that they provide a phase-out so working persons would be better able to adjust to rent increases once the exemption expires. If this panel chooses to incorporate the eighteen month disallowance, then a phase-out period should be included.

As I have indicated, although we are supportive of HUD's approach, we feel it does not sufficiently address the problem. To use a medical analogy, we find that the administration's initiative would remove only a portion of this existing malignancy. Our contention is that you must remove the entire tumor, or the malady will just resurface and the patient will become ill again at a later date. In addition, precious resources will have been wasted which could have been used to successfully heal the patient. Simply put, further congressional action is required if we are to promote real incentives for more residents to obtain work.

To that end, PHADA has been working in conjunction with the Georgia Association of Housing and Redevelopment Authorities (GAHRA) on an initiative that

we believe would achieve these goals. Mr. John Hiscox, co-author of the PHADA/GAHRA position, is presenting the case for rent reform to the panel today. A copy of the PHADA/GAHRA position paper entitled "PHADA/GAHRA RENT REFORM: The Missing Link for Public Housing Residents" is being submitted with his testimony. Let me urge you to carefully examine the points made in this original study.

To avoid duplication in our joint effort, I would like to discuss the details of our legislative recommendations. The PHADA/GAHRA proposed legislation corrects present deficiencies by providing incentives for residents with earned income without penalizing non-working residents. Our recommendations include:

- Providing residents with a twenty percent earned income exclusion
- Creating new ceiling rents which would permit working people to hold on to more of their earnings
- Providing secondary wage earners more incentives to seek jobs and stay in public housing with their families
- A number of other beneficial components.

To briefly elaborate on these recommendations, I would like to provide a summary of the key elements of the PHADA/GAHRA legislative proposals, which fall into two principal areas -- ceiling rents, and exclusions from earned income.

Ceiling rents are the first major component of the PHADA/GAHRA proposals. Ceiling rents allow wage earners an opportunity to build savings in preparation for a transition to the private sector. In addition, they help retain working families by not charging rents based on income that exceed the actual value of the apartment.

The GAHRA/PHADA legislative proposal provides three alternatives for calculating ceiling rents and allows the Public Housing Authority (PHA) complete discretion regarding which individual method to choose. The first method is the current HUD model based on debt service and operating costs. Method #2 sets the ceiling rent at the 80th to 90th percentile of current rent being paid by families now residing in each development. This approximates what persons are willing to pay for such units. Method #3 employs the Section 8 "Rent Reasonableness Test." This approach sets the ceiling rent at not less than the fair market rent (determined by the PHA) for comparable, private-sector units of similar size and amenities.

The PHA may set different ceiling rents for each of its developments. This recognizes the real market differences between inner-city and suburban neighborhoods. Ceiling rents would be adjusted annually and must be increased when more than 25% of the development is receiving this benefit. Further incentive for upward mobility would be provided by allowing a family to receive this benefit for only three full years. Benefits would then be phased-out over the next three years at an 85%, then 65%, then 40% ratio. Finally, families who fall below the ceiling rent for 12 months would

receive a new three-year time period followed by phase-out.

The second major component of the GAHRA/PHADA legislative plan encourages positive economic behavior by excluding a portion of earned income from the rent calculation. Four categories of exclusions are provided.

- \* 20% of any earned income
- \* Health care costs
- \* Additional 10% for two parent household
- \* Income from formerly dependent minors

The first exclusion is a flat 20% of all earned income, which is designed to approximate "net" income. Without this measure, employed residents are charged rent approaching 50% of their "take-home" pay, while unemployed residents pay rent based upon 30% of their income. The GAHRA/PHADA legislative proposal offsets the mandatory payroll deductions of federal income tax withholding, state income tax withholding and FICA, resulting in a fairer rent for employed residents. Rather than requiring a detailed review of pay check stubs to determine "net" income, a single 20% exclusion also has the advantage of administrative simplicity.

An additional 10% of the earned income from two-parent families with children would be excluded from the rent calculation. Studies have consistently shown that children from single parent families are at greater risk. This measure is designed to provide a more positive environment for children, promote family formation and encourage family stability. **Regrettably, this component appears to be absent from all other legislative proposals. This is particularly unfortunate, since the cost of this rent reform measure is negligible. Two-parent families are conspicuously absent from public housing.**

One of the most formidable obstacles faced by the newly-employed is loss of medical coverage or the reduction of income from employee contributions to medical insurance. The GAHRA/PHADA legislative proposal would offset this penalty. Health insurance premiums and out-of-pocket health care costs (exceeding 3% of income) paid by the resident for family members not eligible to receive government health care assistance are excluded from the rental calculation. This parallels current medical deduction calculations for the elderly.

Finally, the PHADA/GAHRA proposal would encourage family stability and first time employment among youth. Youth abandon their families, quit their jobs or defraud PHAs rather than contribute nearly 50% of their income toward their parent's rent. Therefore, all income from formerly dependent minor children would be excluded from the rent calculation from ages 18 to 21. The benefit would then phase-out over the next three years in the same fashion as ceiling rents. This is a slower phase-out than H.R. 3888. However, the cost difference is negligible due to the very small percentage of young adults in public housing.



Full details regarding the PHADA/GAHRA legislative proposals are attached to this testimony. This includes specific legislative language along with a commentary on each component of the proposal. We hope that the committee will find these suggestions helpful.

Most major industry groups agree that reform of the public housing rent structure is imperative. While each groups' proposals may differ, we are all united in urging the adoption of comprehensive measures during this session of Congress.

To date, the primary objections to rent reform have been financial. To counter these concerns, PHADA proposes that rent reform initially apply only to public housing.<sup>1</sup>

PHADA and GAHRA have researched the potential cost of rent reform and addressed this issue in the position paper attached to the GAHRA testimony before this committee. This position paper demonstrates the means by which rent reform will yield substantial savings to the federal government.

For example, each new family that goes to work saves the federal government enough in reduced AFDC, Food Stamps, and Medicaid, along with increased FICA and payroll taxes, to pay for the reduced rent of up to 18 current, employed residents. With at least a 12 to 1 payback ratio, rent reform is cost effective almost immediately. This plan will increase the number of employed public housing residents and boost local PHA income. **In the long term, raising local income is the only way to reduce federal outlays.**

Once again, if our society owes anything to public housing residents beyond shelter, it owes them a reasonable opportunity to work and improve their own lives. The GAHRA/PHADA legislative proposal establishes a new public housing rent structure which encourages employment and upward mobility, while at the same time decreasing the need for government subsidy of public housing operations. Please consider incorporating these proposals and concepts into your omnibus bill to be taken up later in the year. Let me state categorically that we stand ready to work with you on this critical matter.

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<sup>1</sup>It is our contention that complete and adequate rent reform for the population most adversely effected is more important than partial reform for all assisted housing residents. We must not provide half as much rent reform for twice as many people. If government resources are scarce, let us demonstrate the efficacy of rent reform in public housing before committing resources to the entire universe of assisted housing.



### **Severely Distressed Housing**

PHADA applauds the Clinton administration for the aggressive stance it has taken with regard to the problems of those housing agencies operating severely distressed housing properties. We have just a few comments on this particular portion of the bill.

We support the provision that would eliminate current requirements that PHAs be classified as "troubled" in order to obtain HOPE VI/URD funds. In addition, we also endorse the committee's decision to boost the maximum planning grant threshold from \$200,000 to \$500,000. If this program is going to be successful, PHAs must be well-prepared to implement their revitalization strategies.

In order to allow PHAs even more opportunities to rehabilitate distressed properties, we urge this panel to incorporate legislative changes that would permit housing authorities to co-mingle URD funds with modernization grants and Major Reconstruction of Obsolete Project (MROP) monies. We understand that HUD plans to submit legislation incorporating this suggestion to the committee later this year.

### **Community Partnerships Against Crime (COMPAC)**

We are supportive of the Secretary's goal to revise and expand the existing Public Housing Drug Elimination Program (PHDEP). The provisions in H.R. 3838 are similar but not identical to those in S.1299, which PHADA backed after careful deliberation.

Initially, HUD proposed to design COMPAC in such a way that large PHAs (those with more than 1250 units) received the bulk of funds. After consulting with industry groups, members of Congress, and other interested parties, HUD agreed to change the legislation to create two categories of PHAs that would be eligible for COMPAC grants. The first include only those operating housing properties with "severe" crime problems. Other housing authorities would fall under the second "catch-all" category. PHADA supported this action on the condition that smaller PHAs be provided the opportunity to transition into the "severe" category as long they fulfilled the criteria for such designation. The standards that are used, such as the uniform crime reporting statistics, should be the same for all PHAs. In addition, we also asked Senate authorizers to include a provision that would allow all PHAs to be eligible for five year grants, in addition to a preference for previous recipients.

The issues surrounding COMPAC's authorization became clouded last year when the appropriations committees acted to shift the balance of funding to large housing authorities. Under the terms of the FY 1994 HUD appropriations law, 75 percent of the PHDEP monies is automatically applied to those PHAs with more than 1250 units. Twenty percent is available for the remaining PHAs, with 5 percent set

aside for assisted housing. Although this is similar to HUD's plans for the final COMPAC rule, it is not in total conformity with the Department's objectives.

We believe the FY 1994 appropriations language is much too arbitrary. Unlike the COMPAC initiative designed by the Senate, it automatically assumes that large agencies have greater crime problems than their smaller counterparts. While this is undoubtedly true in a majority of cases, many small and mid-size PHAs encounter serious crime problems, particularly those located outside large metropolitan areas. This is why we believe it is critical that smaller and mid-size PHAs be afforded an opportunity to be designated in the "severe" category.

The Senate authorization bill, which was passed on November 18 after the appropriations bill was signed into law, contains two very important components we think should be added to your bill. First, Subsection (b) of Section 5123 of H.R. 3838 mandates that a PHA in the "catch-all" class can only receive a two-year grant. We support the Senate's version, which makes all recipients eligible to receive five-year grants. In addition to this suggestion, we urge you to incorporate a provision similar to the Senate bill which would accord a preference to previous recipients.

Finally, we believe that language should be included in the bill making it clear that all PHAs could be eligible for the "severe" status, provided they meet prescribed criteria. We are concerned that HUD may define "severe" as all those agencies consisting of 1250 units or more. A cut-off of 1250 units, or any other unit-count threshold for that matter, is not an accurate -- or equitable -- way to divide scant resources.

All of these features would result in more predictable planning for housing authorities, permitting them to better fight crime and drugs on their properties. We therefore urge their adoption.

## Section 8

PHADA believes H.R. 3838 provides a good start in terms of unifying the Section 8 certificate and voucher programs into one rental assistance initiative. It makes no sense to require that PHAs adhere to two disparate sets of regulations guided by different policies, funding notices, and statutory requirements. This leads to a greater paperwork burden and means housing authorities spend more time processing documents rather than performing the function for which they were created -- providing affordable housing to low-income people.

We appreciate the committee's decision to keep the authorized earned administrative fee at 8.2 percent, holding current fees steady though FY 1996. As the committee knows, there is an honest disagreement between housing authorities and the Department and the Office of Management and Budget (OMB) in relation to the true

costs of operating the Section 8 programs. This legislation, which PHADA strongly supports, would give PHAs and the Department sufficient time to review the existing administrative fee structure and devise any remedial changes that may be necessary.

While I am on this topic, let me say for the record that PHADA opposes HUD's FY 1995 budget proposal to set the fee at 7.65% (using a new, still-to-be-determined base) for the first 1,000 units of Section 8 assistance, lowering the payment to 7% for all assisted units exceeding a total of one-thousand. To date, we have seen no statistical analysis whatsoever that supports this new formula and, indeed, we contend it would prove grossly insufficient. This is borne out by the fact that even the General Accounting Office (GAO) points out that HUD does not sufficiently compensate PHAs for programs such as Family Self Sufficiency (FSS). Thus, we recommend that this panel reject any authorizing language that would implement the Department's FY 1995 administrative fee scheme.

I feel compelled to further add that any effort on the administration's part to reduce the Fair Market Rent (FMR) threshold should be resoundingly rejected by Congress. The Clinton administration has repeatedly stated its intent to provide greater housing opportunities for low-income persons to reside in higher-income census tracts. The term "spatial deconcentration" has been employed many times over to characterize this policy.

Despite the lofty objectives Secretary Cisneros has set to effectuate this policy, lowering the FMR below 45 percent would have ominous ramifications for low-income housing programs. Ironically, such an action would be in direct conflict with the administration's oft-stated goals. Indeed, the plan would further ghettoize Section 8 residents by forcing them into even greater economically-impacted communities! For these reasons, we urge you to reject this onerous and misguided proposal.

On another important issue, we do not support the provision in H.R. 3838 that would give public housing residents a federal preference for admission to Section 8 housing. There are almost one million families nationwide on Section 8 waiting lists today. The proposed statutory change would result in even longer waiting periods for these families. In addition, public housing residents -- despite the negative image often portrayed in the media -- are, for the most part, living in safe and sanitary affordable shelter. If we permit all the families who may want to leave for whatever reason to actually do so, the cost of constant turnover could prove astronomical. In all likelihood, there are not adequate operating subsidies to meet the costs that such move-outs might generate (for incoming resident screening, cleaning, repainting, general maintenance, etc.).

We are also concerned with the portion of the committee print that says each PHA shall provide counseling and assistance regarding housing opportunities in the area of jurisdiction of the agency, including assistance in obtaining new rental

residences. Many housing authorities, which possess adequate staff and resources, are already performing these types of services. Other agencies, particularly smaller ones, furnish residents with lists and directories of available housing in the area. Nonetheless, we believe that, given current operating shortfalls (currently running at approximately \$144 million nationwide), it would be inequitable to mandate this policy. Therefore, we suggest the language be loosened by making it optional on the PHA's part.

On the issue of Section 8 project-based assistance, we are extremely supportive of the committee's decision to lift the 15 percent limit which currently exists. This measure will permit more PHAs to take advantage of the project-basing option, meaning that affordable housing will remain in the community for at least the duration of the contract term. This in turn will result in greater housing opportunities for low-income families.

With regard to portability, PHADA endorses your effort to reimburse PHAs for rental assistance units lost to other jurisdictions. We also appreciate the fact that you have kept existing provisions allowing housing authorities to utilize a one-year waiting period before a resident may take housing assistance elsewhere.

Our biggest concern in relation to portability, however, is whether there will be sufficient funds to "make whole" those units lost through portable moves. As you know, the Section 8 program remains subject to a greater number of earmarks on a regular basis. HUD, for example, is proposing a net increase of 70,000 rental assistance units in FY 1995. Nonetheless, every one of these incremental units would be set aside for different programs such as Moving to Independence, homeless transition, and disabled/elderly housing. There are no reserved funds set aside for portability reimbursements.

Because of these concerns, we ask that this committee work with your appropriations counterparts to ensure that adequate funds are available to reimburse PHAs for lost certificates and vouchers. Unless this is done, PHAs will continue to spend more time billing other housing authorities, processing forms and filling out paperwork, all to the detriment of the program's housing component.

### Public Housing Modernization

In the last year or so there has been a great deal of discussion centering around the issue of the modernization "pipeline." While PHADA does not give much credence to the numbers that are constantly cited in relation to the magnitude of this problem, we do recognize that funds need to be spent more expeditiously by a *small number of PHAs*.



We believe that a great part of the problem revolves around existing rules and regulations that hinder speedy allocation of funds. In recognition of this problem, we have worked with the Department and other interest groups to devise new rules which would hasten the process. A proposed rule was issued March 8. Public comments are due April 22.

Despite the positive features in the new rule, additional changes are required to current statutes governing modernization. We suggest the following actions, which we have already raised with the Department:

- ▶ Environmental Review - allow housing agencies to conduct environmental reviews and certify to National Environment Policy Act (NEPA) compliance. This would reduce the overall workload in terms of review for HUD field offices.
- ▶ Co-mingling of URD-Modernization funds (referenced earlier under "severely distressed housing").
- ▶ Allow the Department to recapture modernization monies from PHAs that are not complying with existing time-related rules. Redistribute the funds to other needy PHAs. At present, there is a disincentive for HUD to repossess unobligated monies because they revert back to the treasury and can not be employed for other purposes.
- ▶ Allow PHAs to borrow against future modernization allocations, using procedures similar to the Section 108 program. This would allow good performers to accomplish modernization objectives at a quicker rate than is presently possible.
- ▶ Reinstate the Consolidated Supply Program. If this is not done, at the very least, permit PHAs access to the General Service Administration's (GSA) schedule.

On another matter related to public housing modernization, I also want to express PHADA's concerns about the ever-growing number of set-asides within the program. These currently include: \$5 million for Resident Management programs; \$50 million for Choice in Management; and more than \$100 million for vacancy reduction. Now, the Department is proposing yet another earmark of \$85 million for a new Tenant Opportunity Program (TOP).

While PHADA is very supportive of resident initiatives, we do not believe these monies should be drawn at the expense of the modernization program. Indeed, existing allocations can not satisfy the more than \$20 billion in documented backlogged modernization needs. Thus, we believe HUD and Congress should furnish new monies within other parts of the budget for initiatives like TOP.

### **Mixed Populations**

This panel two years ago struggled mightily with the so-called "mixed



populations" dilemma. After careful deliberation and consultation with both housing providers and advocates for the disabled, you adopted corrective provisions in the Housing and Community Development Act (HCDA) of 1992. While no one was fully satisfied with the compromise statute, all parties agreed it was the best that could be achieved under difficult circumstances.

After more than a year of delay, the Department of Housing and Urban Development issued the mixed populations rule on January 7. Mr. Chairman and members of the committee, we believe HUD's rule greatly subverts the intentions you had when you wrote the HCDA. For all practical purposes, the rule bars housing authorities from implementing designated housing and separating their disabled and elderly residents. PHADA has filed comments protesting the regulation, urging the Department to withdraw it and begin the regulatory process anew. For your reference, a copy of our comments was forwarded to the housing subcommittee's staff on March 3.

Under the terms of PHADA's recommended schedule, the actual publication of a final revised mixed populations rule could conceivably be produced with little delay. Even if it does take slightly longer, though, we believe a little extra time in creating an equitable and workable regulation would be a worthy investment.

#### **Miscellaneous Issues**

Finally, PHADA supports some of the other miscellaneous items covered in H.R. 3838, especially those that would eliminate CIAP replacement documentation requirements, and the revision to the definition of "families." Lastly, we wholly support your effort to keep the public housing Youth Sports Program a separately-authorized program.

#### **Budget Issues**

Mr. Chairman, this hearing is not intended to be a forum on appropriations issues, but I would be remiss if I did not express some of PHADA's serious concerns about certain proposals in the Department's FY 1995 spending plan. I have already touched on our reservations regarding the FMR proposal, as well as the administrative fee question. In addition to these concerns, PHADA has grave worries on several other line item reductions HUD is offering in the budget.

At present, Performance Funding System (PFS) monies are running at approximately 95 percent of total need. In real dollars, there is a \$144 million shortfall. Notwithstanding this severe budget gap, HUD is proposing a \$100 million-plus cut in PFS for FY 1995. If permitted to stand, this would have a devastating impact on the ability of PHAs to manage their programs. Maintenance will be deferred, resident services programs will have to be curtailed, needed reserves will be depleted, and other

dire consequences will follow. This could lead many PHAs, through no fault of their own, into "troubled" status under the Public Housing Management Assessment Program (PHMAP).

The Department likewise is proposing major reductions in the modernization account. Similar to the cut in PFS spending, this will result in very severe circumstances for PHAs. Among other things, it will hamper lead-based paint testing and abatement efforts, slow down compliance with Section 504 handicapped accessibility guidelines, and delay installation of new security equipment. We therefore urge Congress to reject any cut in modernization in FY 1995.

We are very apprehensive about other portions of the HUD budget. Since this arena is not intended to determine spending needs, I will not go through our list of grievances line by line. For purposes of easy reference, however, I have attached a copy of PHADA's FY 1995 budget recommendations to this testimony. We respectfully request that the committee, in conjunction with appropriations committees, give favorable consideration to these suggestions.

That concludes my testimony. Once again, I want to thank you Mr. Chairman, and the other members of the panel, for all your efforts in fashioning a reauthorization bill this year. To that end, our members stand ready to work with you throughout the session. I would be happy to respond to any questions you might have.

#### Attachments

- \* PHADA/GAHRA Rent Reform Proposals
- \* PHADA FY 1995 Budget Recommendations

## Major Points, PHADA Testimony

### Rent Reform

- ▶ Provide a 20 percent earned income deduction for working residents.
- ▶ Set equitable ceiling rents that will allow more working families to remain in public housing.
- ▶ Give secondary wage earners (working children) the ability to hold onto earnings for their education, etc.

### Severely Distressed Housing

- ▶ Raise planning grant threshold from \$200,000 to \$500,000.
- ▶ Allow more PHAs, not just "troubled" agencies, to access HOPE VI/URD monies.
- ▶ Permit co-mingling of URD funds with Comprehensive Grant and MROP allocations.

### COMPAC

- ▶ Set uniform criteria that permit ALL PHAs to transition into "severe" class, provided they demonstrate need.
- ▶ Give a preference to previous recipients.
- ▶ Provide that ALL PHAs be eligible for five year grants.

### Section 8

- ▶ Merge vouchers and certificates into one streamlined program.
- ▶ At a minimum, keep administrative fees at FY 1994 levels until a significant review can be completed.
- ▶ Keep FMRs at 45 percent.
- ▶ Restrict preferences for public housing residents wanting admission to Section 8 properties.
- ▶ Authorize and appropriate needed funds for portability reimbursements.
- ▶ Give PHAs the option to provide housing counseling assistance.
- ▶ Raise project-basing option above existing 15 percent limit.

### Modernization

- ▶ Accelerate allocation process by issuing new streamlined proposed rule (see other delineated recommendations in testimony).



## Public Housing Authorities Directors Association

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### FY 1995 Budget Recommendations

Operating Subsidies - \$3.2 billion

Modernization - \$3.7 billion

Development - \$644 million for 7500 units

Indian Housing - \$263 million

PHDEP/COMPAC - \$325 million

HOPE VI/URD - \$500 million

Incremental Section 8 assistance - 70,000 units<sup>1</sup>

Section 8 Administrative fees - Maintain at presently-authorized level

FSS Coordinators - \$30 million

Mixed Housing Coordinators - \$30 million

Public Housing Rent Reform - \$170 million

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<sup>1</sup> Lower earmark for MTI to 20,000. Raise threshold to 10,000 units for elderly/disabled housing. Keep at least 20,000 set aside for normal fair share assistance.

# **GAHRA/PHADA RENT REFORM**

## **PROPOSED LEGISLATION**

including  
Summary and Comments

Presented by:

The Georgia Association of Housing & Redevelopment Authorities, Inc.

and

The Public Housing Authorities Directors Association

**January, 1994**



## A BILL

To encourage gainful employment among the residents of federally assisted public housing.

Be it enacted by the Senate and the House of Representatives of the United States of America in Congress assembled,

Sec. 1. PUBLIC HOUSING CEILING RENTS. - Section 3, subsection (a)(2) of the United States Housing Act of 1937 (42 U.S.C. 1437a(a)(2)) is amended:

(1) by modifying subsection 3(a)(2)(A)(iii) (42 U.S.C. 1437a(a)(2)(A)(iii)) thereof to read in full as follows:

"(iii) at the election of such agency, and subject to approval by the Secretary, is either

a. not less than the average monthly amount of debt service and operating expenses attributable to dwelling units of similar size in public housing projects owned and operated by such agency, or

b. not less than the rental paid by a family the amount of whose rent is such that, on the date upon which a public housing agency adopts ceiling rents for the project in which such family resides, not less than 10% nor more than 20% (as determined by the Secretary from time to time by regulation) of the families residing in such project pay a higher rent; the ceiling rents so adopted and approved by the Secretary shall be redetermined annually by application of the Section 8 Automatic Annual Adjustment Factors issued from time to time by the Secretary pursuant to subsection 8(c)(2)(A) of this chapter (42 U.S.C. 1437f(c)(2)(A)), or

c. not less than the fair market rent determined by the agency for comparable units of similar size under the procedures prescribed by the Secretary for determining rent reasonableness in the Section 8 Rental Certificate program. The Secretary may, not more frequently than annually, review the rents determined by each agency and each agency's application of the procedures for determining rent reasonableness used in establishing its ceiling rents. In the event that any such review shall reveal that the ceiling rents adopted by an agency pursuant to this subsection c. are deliberately and materially understated, the Secretary may, subject to reasonable right of

administrative appeal by the affected agency, impose such corrective actions as the Secretary shall deem appropriate, which may include payment to the Secretary of some or all of the aggregate amounts by which such rents are understated. The Secretary may at any time require that the determination of ceiling rents pursuant to this subsection c. be conducted by a qualified independent third party in accordance with regulations to be issued by the Secretary.

(2) by adding to subsection 3(a)(2)(A) (42 U.S.C. 1437a(a)(2)(A)), after subsection (iii) thereof, the following sentence: "The maximum amount of rent, so adopted by a public housing agency and approved by the Secretary, which may be charged to a family is herein called the "ceiling rent"."

(3) by redesignating subsection 3(a)(2)(B) as subsection 3(a)(2)(H) and by inserting, as new subsections 3(a)(2)(B),(C),(D),(E),(F) and (G) (42 U.S.C. 1437a(a)(2)(B),(C),(D),(E),(F) and (G)), the following provisions:

(B) No waiver by the Secretary shall be necessary in order for a public housing agency to adopt ceiling rents. The discretion of the Secretary in approving an election by a public housing agency to adopt ceiling rents shall be limited to ensuring that the election meets the requirements of this

subsection 3(a)(2). Further, and without limiting the foregoing, the Secretary shall not (except as otherwise specifically provided in subsection (C) below) hold or exercise discretion with respect to which authorized method of determining its ceiling rents a public housing agency may elect, such election being within the sole discretion of such agency.

(C) Unless otherwise approved by the Secretary, a public housing agency must utilize the same method for determining ceiling rents for all projects with respect to which such agency elects to adopt ceiling rents; provided, however, with respect to single family scattered site housing or projects consisting of 10 or less units, a public housing agency may elect, or the Secretary may require, that ceiling rents applicable to such units be calculated using the method set forth in subsection 3(a)(2)(A)(iii)c above, notwithstanding that ceiling rents applicable to such agency's other projects are calculated by another method. After initial adoption of ceiling rents by a public housing agency and approval thereof by the Secretary, such agency may not thereafter elect a different method of calculating such rents except as approved by the Secretary. As used in this subsection 3(a)(2), the term "project" shall mean a building or group of buildings containing public housing units and having a common identity and management, as determined by the public housing agency. Such term need not coincide with

buildings or sets of buildings having a project number assigned by the Secretary.

(D) Subject to the limitations concerning method of calculation set forth in subsection (C) above, different ceiling rents may be adopted by a public housing agency and approved by the Secretary for each project owned by the public housing agency. A public housing agency may adopt and the Secretary may approve maximum rents for some or all of the projects owned by such agency.

(E) Ceiling rents for each project with respect to which such rents are adopted shall be redetermined annually by the public housing agency and, subject to subsequent readjustment if the Secretary determines after review that such rents are improper, such redetermined ceiling rents shall be effective without further approval by the Secretary.

(F) Notwithstanding any other provision contained in this subsection 3(a)(2):

- (i) not more than 25 percent of the total number of dwelling units contained in any project (rounded upward to the nearest whole unit)



shall be occupied by families whose rents are limited in amount by the ceiling rents adopted for such project. In the event that, at any time, families occupying more than 25% of the units in a project are eligible for ceiling rents, then, at the time of the next annual redetermination of ceiling rents for such project, the public housing agency shall increase the applicable ceiling rents so that, at the time of such redetermination, not more than 25% of the dwelling units in the project are occupied by families whose rent is limited by ceiling rents.

(ii) the total continuous period during which any family's rent may be limited by the full application of ceiling rents shall not exceed three years. However, if at any time commencing before the expiration of said three-year period, the rent payable by a family shall be less than the applicable ceiling rent for a period in excess of 12 consecutive months, either because of a reduction in the family's adjusted income or an increase in ceiling rents, or both, then a new three year period shall commence when such family's rent again would exceed the applicable ceiling rents. After the expiration of said three year continuous period during which ceiling rents are fully applied to limit a family's rent, the reduction is such family's rent

which would otherwise result from full application of the ceiling rents shall be successively lessened so that: (i) during the fourth year, the family shall receive 85% of the reduction which would result if the ceiling rents were fully applied; (ii) during the fifth year, the family shall receive 65% of said reduction; (iii) during the sixth year, the family shall receive 40% of said reduction; and (iv) during the seventh and subsequent years the family shall not receive any reduction in rent by virtue of the adoption of ceiling rents. The commencement of a family's initial three-year eligibility or subsequent three-year re-eligibility for full ceiling rent limitations and the commencement of each reduction in the full application of ceiling rents as provided in this subsection (ii) shall, in the case of each family, occur not later than the effective date of such family's annual redetermination of rent and family composition in accordance with its public housing lease.

(G) Ceiling rents authorized in this subsection shall not be applicable to any project which is designated as housing for elderly persons.

**Sec. 2. EARNED INCOME EXCLUSION.** - Subsection 3(b)(5) of the United States Housing Act of 1937 (42 U.S.C. 1437a(b)(5)) is amended:

(1) in subsection (C) thereof, by deleting the word "and" before "(ii)" and inserting, before the semicolon at the end thereof, the following language: ",and (iii) the documented sums actually paid by the family for health insurance coverage for any members of the family residing in the household who, at the time of such exclusion, are not receiving or approved to receive governmental assistance for health care";

(2) by amending subsection (E) thereof to read in full as follows: "(E) 10% of the earned income of an elderly family and 20% of the earned income of a non-elderly family"; and

(3) by striking "and" at the end of subparagraph (F), by striking the period at the end of subparagraph (G) and inserting ";and", and by inserting after subsection (G) the following new subsections:

"(H) an amount not to exceed an additional 10% of the earned income of two-parent families with children (as defined in regulations issued by the Secretary);"

"(I) all earned income of any formerly dependent child who is a member of a family residing in public housing, commencing on the effective date of

the redetermination of rent and family composition for such family next occurring after such child's 18th birthday and continuing without reduction in such exclusion until the effective date of the redetermination of rent and family composition for such family next occurring after such child's 21st birthday. Thereafter, the exclusion of said child's earned income authorized in this subsection (I) shall decrease annually so that: (i) for the year commencing on the effective date of the next such redetermination after the child's 21st birthday, the percentage of such child's earned income which may be excluded is 85%; (ii) for the year commencing on the effective date of the next such redetermination after the child's 22nd birthday, the percentage of such child's earned income which may be excluded is 65%; (iii) for the year commencing on the effective date of the next such redetermination after the child's 23rd birthday, the percentage of such child's income which may be excluded is 40%; and (iv) for the year commencing on the effective date of the next such redetermination after the child's 24th birthday and thereafter, none of such child's earned income may be excluded.

**Sec. 3. EFFECTIVE DATE.** - The amendments contained herein shall be effective 120 days after the date of enactment hereof.

Sec. 4. IMPLEMENTATION. - The Secretary shall issue final regulations necessary to implement the provisions hereof, which regulations shall be effective not later than the effective date hereof. Such regulations shall be issued after notice and opportunity for public comment pursuant to the provisions of section 553 of Title 5, United States Code (notwithstanding subsections (a)(2), (b)(B), and (d)(3) of such section).



## GAHRA/PHADA RENT REFORM - PROPOSED LEGISLATION SUMMARY AND COMMENT

The following summary and comment is offered in connection with a bill prepared by the Georgia Association of Housing and Redevelopment Authorities, Inc. and the Public Housing Authorities Directors Association (herein called the "GAHRA/PHADA bill") to encourage gainful employment and the formation of stable two-parent families with children among the residents of federally assisted public housing. Section references stated below refer to the bill attached hereto.

<u>Section</u>	<u>Summary and Comment</u>
<b>Sec. 1</b> (Amendatory Sentence)	Subsection 42 U.S.C. 1437a(a)2 presently contains an authorization for public housing authorities, subject to approval by the HUD Secretary, to adopt ceiling rents. The Housing and Community Development Act of 1992 amended this section to eliminate the 5-year limitation on ceiling rents and to permit them to be extended indefinitely. This section of the GAHRA/PHADA bill would amend the ceiling rent provisions to permit two additional alternative methods of setting ceiling rents and would add a number of limiting and clarifying provisions.
<b>Sec. 1(1)</b>	<p>This subsection adds two alternatives to the current method by which ceiling rents must be calculated. Any of the three alternative methods available after these amendments could be selected by a public housing agency, subject to HUD's approval. HUD's discretion, with respect to approval of ceiling rents by a local agency, is limited in certain respects as elsewhere provided in the bill.</p> <p>The first alternative, which is set forth in subsection a., simply restates, in identical language, the present method permitted for calculating maximum ceiling rents. Under this method, ceiling rents are set by computing a per unit average of total debt service, or imputed debt service, and operating expenses. This approach, while it has appeal as an accounting concept, does not result in ceiling rents which necessarily bear any relationship to fair market rents. Because of this, many local agencies have not found using this method to be feasible.</p> <p>The second alternative stated in subsection b. is a modified version of a proposal under consideration at HUD. Presently, the HUD proposal would permit setting maximum ceiling rents at an amount</p>

SectionSummary and Comment

Sec 1(1)  
(cont'd)

which would fall at the 95th percentile of all rents paid in a project, with the method of adjustment, if any, yet to be determined. This approach does have the advantage of relating the ceiling rents, to some extent, to fair market rents, but it may not be dramatic enough to effect a positive result, especially if the maximum rents would be adjusted each year to the then current 95th percentile rent. For these reasons, the GAHRA/PHADA bill lowers the percentile rank which could be used to determine the ceiling rents from the 95th percentile to a range between the 80th and 90th percentiles. Within this range, the exact percentile would be set by the HUD Secretary, from time to time, by regulation. This would allow the Secretary to start out with a relatively conservative approach, with the option to liberalize it depending upon program experience. In an additional effort to correlate ceiling rents calculated by this method with fair market rents, the GAHRA/PHADA bill would require local agencies to recompute the ceiling rents annually based on the Section 8 Automatic Annual Adjustment Factors. These factors are suggested because they provide, in general, a reasonable gauge of market rent trends and they are readily available without causing any additional expenditures on the part of HUD or local agencies in order to calculate adjustments.

The third alternative permitted by the GAHRA/PHADA bill, set forth in subsection c., allows calculation of maximum ceiling rents through the use of the Section 8 rent reasonableness test (which is presently set forth in section 6-5b of the HUD Section 8 Existing Housing Program Handbook). This alternative provides the most direct correlation between maximum ceiling rents and fair market rents. Use of the Section 8 rent reasonableness test is suggested mainly because it is a widely used and reasonably well understood standard which can be employed without the need for new and complicated regulations. The principal objection to this alternative seems to be its potential for abuse. That is, since the rent reasonableness test allows for a certain amount of discretion, ceiling rents might be set by local agencies at unrealistically low levels, with the result being an unnecessary loss of rent revenue. In order to address this potential problem, the GAHRA/PHADA bill authorizes annual review by HUD concerning both the ceiling rents adopted by the local agencies and the proper application of the rent reasonableness test in determining them. If HUD determines that a local agency has deliberately and materially understated its ceiling rents, HUD may demand recapture of the total aggregate amounts by which such

SectionSummary and Comment**Sec. 1(1)**  
(cont'd)

rents are understated by the local agency. This sanction may actually be more powerful than is necessary since the actual loss of revenue almost certainly would not reach this figure. Nonetheless, the statute permits HUD to recapture all or part of the understated amounts in order to provide a serious, credible deterrent to improper use of the rent reasonableness test. The bill also provides that the HUD Secretary may impose other, unspecified corrective actions deemed appropriate by HUD. None of these sanctions will be applicable, however, in cases where the understatement of rents is not material or the agency can show that its actions were not deliberate or intentional. Additionally, HUD may, with or without any finding that the rent reasonableness test has been abused, require any local agency to have its ceiling rents determined by an independent, qualified third party. The standards for determining independence and the required qualifications would be established by the HUD Secretary by regulation.

**Sec. 1(2)**

Inasmuch as the term "ceiling rents" is widely used and understood, it seems appropriate to codify its definition. This section would accomplish that.

**Sec. 1(3)**

This subsection adds a number of additional paragraphs to the statute which address and attempt to resolve in advance certain questions which may arise in the context of widespread application of ceiling rents.

**Subsection (B)**

This provision attempts to clarify that the adoption of ceiling rents by local agencies, so long as they are accomplished in a technically proper manner, is a matter of right and is not discretionary with the HUD Secretary. The present practice of granting waivers would be eliminated under the GAHRA/PHADA bill and HUD's review would be confined to ensuring technical compliance with the statute.

While local agencies have not, in general, experienced difficulties in obtaining ceiling rent waivers, the expansion of the ceiling rent concept, as authorized in the bill, suggests that clarifying possible areas of conflict between HUD and local agencies would be desirable. Also, the bill provides in this subsection that the local agency, not HUD, chooses the method for determining ceiling rents from

SectionSummary and Comment**Subsection (B)**  
(cont'd)

among the three permitted alternatives. With certain exceptions noted elsewhere in the bill, HUD may not require a local agency to change the method which it utilizes for determining its ceiling rents

**Subsection (C)**

This subsection requires that, unless HUD approves otherwise, a local agency must use the same method of determining ceiling rents for all the agency's projects with respect to which the agency adopts such rents. The purpose of this provision is to eliminate unnecessary administrative complexity at HUD's level. In unusual circumstances where HUD finds it in the best interest of the residents and the local agency to allow otherwise, flexibility is permitted on a case by case basis subject to HUD's approval.

With respect to single-family scattered site housing or small projects having 10 or less units, attempting to utilize either project cost or percentile rent approaches to ceiling rents may be inappropriate or impractical. For this reason, either a local agency or HUD may require that the ceiling rents for such units be determined by using the Section 8 rent reasonableness test.

Another provision intended to lessen the administrative complexity of ceiling rents for HUD, is the requirement that local agencies must remain with their chosen method of determining ceiling rents unless HUD allows otherwise.

This subsection defines "project" in a somewhat flexible manner but does not permit a project to be less than a building. Since the propriety of using ceiling rents bears no particular relationship to the assignment of project numbers by HUD, the bill expressly provides that, for purposes of setting ceiling rents, project designations do not have to coincide with those assigned HUD project numbers

**Subsection (D)**

A local agency is permitted to adopt different ceiling rents for each project, although it cannot, with the exceptions noted above, adopt a different method of determining such rents. This subsection also clarifies that a local agency may adopt ceiling rents for one or more of its projects and need not adopt them across the board

SectionSummary and Comment**Subsection (E)**

Local agencies which adopt ceiling rents must adjust them annually. Although HUD may review these determinations, they may become effective without advance approval by HUD. This matter is clarified in order to avoid unnecessary delay and complexity in the administration of the program. It is not likely that HUD has sufficient available resources to review annual adjustments to ceiling rents in the very short interval which would be required for a pre-approval process.

**Subsection (F)**

Paragraph (i) of this subsection sets forth an overall limitation on the number of units in any project which may be occupied by families whose rent is limited by ceiling rents. That figure is somewhat arbitrarily set at 25%. This provision addresses anxieties about the overall cost of ceiling rents by supplying a permanent, overall limit to the extent of their use. Depending upon the ultimate success of rent reform, this limitation may be unnecessary, or even undesirable, in the long term - particularly if rent reform measures result in an ultimate increase, rather than a decrease, in public housing rent revenues. Inclusion of the phrase which calls for rounding to the next higher unit avoids a minor potential ambiguity.

Subparagraph (ii) of this subsection limits the duration of the period in which a family may benefit from ceiling rents to 3 years with an additional 3 year phase-out. Families who fall below the income level permitting them to benefit from ceiling rents may "restart the clock" and begin a new 3-year period. However, in order to prevent abuse, a family will not be allowed to do this unless it has been ineligible for ceiling rents for more than a year. The intent is to discourage a family from becoming unemployed or partially unemployed simply to obtain the benefit of ceiling rents. It is felt that requiring such circumstances to have continued for at least a year would sufficiently discourage this conduct. Also, to discourage abuses, a new 3-year period would not begin if the family dropped off ceiling rents during the phase-out period.

As presently written, this subsection does not limit the number of 3-year ceiling rent benefit periods which are potentially available to a family who falls off ceiling rents for more than a year before the phase-out period. While the propriety of this can be fairly debated, the GAHRA/PHADA bill is based on the premise that, in the absence of abuse, the statute should operate to encourage gainful employment



SectionSummary and Comment**Subsection (F)**  
(cont'd)

continuously over long periods of time. And in view of this central objective, there would seem no reason to apply artificial limitations to deny the benefit of ceiling rents to family who is not abusing their use. The phase-out provisions simply reduce by specified percentages over a 3-year period the ceiling rent benefit which a family would otherwise receive. It is anticipated that, in many cases, participating families would depart public housing in the 4th or 5th year and that relatively few would remain during the entire phase-out period. While they may commence earlier, the various annual periods mentioned in this subsection must commence no later than the effective date of a family's annual redetermination of rent and family composition under the terms of its lease.

**Subsection (G)**

Ceiling rents are not applicable to any project which is designated for occupancy by elderly persons. (This will not, however, prevent an elderly family from occupying a unit in public housing not designated for the elderly from participating in the benefits of ceiling rents if eligible.) This limitation will reduce the overall perceived or actual cost of implementing ceiling rents and will limit them to the public housing populations where they will most likely produce the positive social effects associated with significant levels of gainful employment.

**Sec. 2**  
(Amendatory Sentence)

This section amends the existing earned income exclusions codified at 42 U.S.C. 1437a(b)(5). It does not eliminate or change any present exclusion from earned income but rather adds four additional exclusions.

**Sec. 2(1)**

This subsection would create an additional exclusion for amounts paid by a family for health insurance coverage provided that the persons with respect to whom such exclusion is taken are not either receiving or approved to receive governmental assistance for health care. The intent is to help mitigate the economic effect of the loss of Medicaid coverage for a working family. Also, this change assumes that purchase of medical insurance coverage by such families will result in better medical attention for children and ultimately, therefore, in savings to the government. The exclusion still applies only to total expenditures in excess of 3% of income.

SectionSummary and Comment**Sec. 2(2)**

This subsection embodies the most important change in the earned income exclusions proposed by the GAHRA/PHADA bill. With respect to elderly families, it leaves the current exclusion at 10% but increases it to 20% for non-elderly families. The rationale for the distinction between the elderly and the non-elderly is firstly, that this exclusion is primarily intended to encourage families to become gainfully employed with the result that they ultimately leave public housing in favor of comparable market-rate housing and, secondly, that applying this additional exclusion only to non-elderly persons reduces its cost of the exclusion.

A single percentage exclusion is adopted in favor of more complex approaches which would require a local agency to verify different costs associated with a family's employment, such as transportation, tools, uniforms, state and local taxes, etc.. The 20% exclusion is intended to encompass these types of items in a manner which will not require commitment of additional local housing agency staffing and it would be more easily understood by public housing residents.

**Sec. 2(3)**

This subsection adds two new exclusions.

The first, set forth in subsection (H), authorizes an entirely new 10% exclusion for two-parent families with children. This provision is intended to help ameliorate the disintegration of the two-parent family which is currently commonplace in public housing. It also will encourage reporting of the presence in the household of a second parent - a situation now often unreported.

The definition of "two-parent family" is intentionally left to the HUD Secretary. Presumably, the definition ultimately adopted will set forth standards to establish an actual, bona fide commitment on the part of both parents with respect to assumption of child-rearing responsibilities.

Subsection (I) authorizes an exclusion to cover the common situation in which a minor child becomes 18 years of age and goes to work. Current law discourages such employment. After 3 years of full exclusion, this benefit would phase-out over an additional 3-year period.

SectionSummary and Comment

Sec. 3

Sec. 4

These sections provide for an effective date and require the issuance of implementing regulations by the HUD Secretary on or before that date. The effective date is delayed for 120 days after enactment to allow a suitable period for development and promulgation of the regulations. In issuing the regulations, the HUD Secretary is not permitted to bypass the notice and comment rulemaking process by utilizing the exceptions permitted in the Administrative Procedure Act.

Chairman Gonzalez'  
**Additional Questions**  
**Hearing -- March 17, 1994**  
 (to Mr. J. Richard Parker, II)

**Public Housing Authorities Directors Association**

- 1) One of the central purposes of rent reform is to improve the economic mix in public housing developments. How specifically does an increased economic mix benefit public housing developments?
- 2) How do current public housing rent determination rules disadvantage working families?
- 3) H.R. 3838 contains several rent reform initiatives proposed last year by HUD that are designed to assist working families who live in public housing. One of these provisions would disallow counting as earned income -- for 18 months -- the income of newly employed public housing residents who had been previously unemployed for a year. In your opinion, is this 18 month period a long enough period of time for newly employed public housing residents to adjust to their new economic status before they face possible rent increases?
- 4) H.R. 3838 contains a HUD initiated rent reform proposal that would make ceiling rents for public housing units reasonably related to the rental value of the units. Why do ceiling rents often exceed the reasonable rental value of public housing units, and how does this impact on working families?
- 5) The proposed FY 1995 HUD budget would substantially reduce public housing operating subsidies. Given that public housing rents do not cover the operating costs of public housing units, how will this proposed reduction impact on public housing developments? What kind of day-to-day maintenance in public housing developments will suffer as a result of these proposed reductions?
- 6) Various proposals have been raised about relaxing the one-for-one replacement requirement for public housing demolished or disposed in a "severely distressed" project. What is the position of your organization with regard to these proposals?

(Mr. Parker's Responses to Chairman Gonzalez' Questions)

***Question #1: One of the central purposes of rent reform is to improve the economic mix in public housing developments. How specifically does an increased economic mix benefit public housing developments?***

Perhaps one of the clearest ways to examine the positive impact of an improved economic mix is to examine the negative impacts of current public housing demographics.

The steady decline of employed families has had profound negative consequences in our neighborhoods. The present income mix in public housing is unique in our society. Nowhere in the private sector is there a successful, neighborhood model in which all the residents are extremely low income. Real neighborhoods are never as homogeneous as public housing neighborhoods have become in recent years.

This concentration of very low income families reinforces all types of negative social outcomes. For example, role models have been effectively eliminated from many communities. Children and young adults may reside in a building or development in which no one gets up in the morning and goes to a job. Likewise, adults on AFDC see only others in similar circumstances.

The message is constant and unrelenting -- welfare dependency, low education, teen pregnancy and a host of other social problems are normal, everyday occurrences. There appears to be no light at the end of the tunnel. It is no wonder that such a population is more vulnerable to crime, drugs and violence.

A more positive mix of incomes will certainly improve the quality of life for all residents in public housing neighborhoods. We believe that a blend of employed and unemployed poor will break the cycle of hopelessness and that public housing residents will not carry the same stigma once their neighborhoods more closely resemble those in the "real world."

In addition to the important and intangible benefits of hope and self-image, there will be concrete measurable benefits. Employed families have a stabilizing effect on any neighborhood. Employment reduces the likelihood of engaging in crime and drugs. Similarly, vandalism costs should be reduced. Employment gives people a stake in their neighborhood. This attitude can be as contagious as the pervasive sense of hopelessness that is now so prevalent.

An improved economic mix means that more families will succeed in moving through the public housing system. Real progress is usually incremental. Few families can go from AFDC dependency to homeownership in one step. **Upward mobility cannot occur without a range of incomes.** The process is always...entry level employment...leading to increased employment...leading to



economic independence. Each level of this process not only points the way to the next, but offers valuable encouragement throughout.

Low income is a prime risk factor in low educational achievement. It is also a prime indicator for child abuse and neglect. The future of our children and youth should be measurably enhanced by a more productive mix of incomes in their neighborhoods. We cannot underestimate the impact of giving our youth examples of success, educational achievement and upward mobility.

The federal government also will benefit from an increased economic mix in public housing. First, the need for federal operating subsidy will be reduced. The only way to reduce federal outlays is to increase locally generated revenues. This can only occur if more employed families reside in our neighborhoods. Second, operating costs for public housing should also be reduced. As one example, employed residents are less likely to be involved in crime and vandalism. The costs associated with both preventing these problems and coping with their destructive aftermath should decrease, resulting in significant savings.

Finally, cities and towns across our country will benefit from an improved economic mix in our developments. As public housing begins to reflect the actual low income community in each city, it will be viewed in a new, more positive light. Public housing developments will become what they were initially represented to be -- safe, decent neighborhoods for low and moderate income persons which are a part of the fabric of our communities. They will fulfill their original mission as neighborhoods which offer assistance and hope for a better and more productive life.

All of this can only become a reality with a better, more realistic economic mix.

***Question #2: How do current public housing rent determination rules disadvantage working families?***

Please refer to the material submitted with the Georgia Association of Housing and Redevelopment Authorities's testimony. The position paper entitled "PHADA/GAHRA RENT REFORM: The Missing Link in Upward Mobility for Public Housing Residents" provides a complete and detailed examination of public housing rent regulations. Rather than completely revisit that comprehensive explanation, a brief summary will be provided below.

Today, public housing residents are actually worse off when they get a job. The current rent determination rules impose a stiff penalty on working families. For example, the PHADA/GAHRA position paper compares a Georgia AFDC family with three children to a similar family who accepts minimum wage employment.

At the meager salary of \$4.25 per hour, the employed family must pay \$204 per month in rent. Increased rent and loss of public assistance benefits make the employed family \$140 worse off each month. This is the equivalent to being taxed at a rate of 117%.

The picture does not materially improve as income rises. In addition, the scenario described above holds true regardless of the family's state residency. Detailed analysis has been performed showing similar results for Missouri, New Jersey, Maryland, Texas, Illinois, Massachusetts, and California.

The primary reason for this unfairness is the statutory requirement to calculate rent for earned income on what amounts to "gross" rather than on "net." This means that employed residents are charged rent approaching 50% of their "take-home pay", while unemployed residents pay rent based on 30% of their income.

Current rent determination rules do not account for mandatory payroll deductions. Federal income tax withholding, state income taxes and FICA result in a 20% disadvantage for employed families.

While there are other disadvantages in the rent formulas for working families (please refer to the PHADA/GAHRA paper), the "gross" versus "net" problem is the core issue. It represents a fundamental inequity in the current rent determination regulations. Unless this problem is resolved, no form of rent reform can ultimately succeed. As long as unemployed families are better off than working families, we cannot hope to spur employment. At a minimum, the playing fields must be level and the "gross / net" problem must be eliminated.

For this reason, we strongly support measures like the 20% income deduction provided in Rep. Maxine Water's legislation, H.R. 4159. This approach, which is also included in several other proposals, is essential to workable, meaningful rent reform.

*Question #3: H.R. 3838 contains several rent reform initiatives proposed last year by HUD that are designed to assist working families who live in public housing. One of these provisions would disallow counting as earned income -- for 18 months -- the income of newly employed public housing residents who had been previously unemployed for a year. In your opinion, is this 18 month period a long enough period of time for newly employed public housing residents to adjust to their new economic status before they face possible rent increases?*

Eighteen months probably represents an adequate time period. However, the HUD proposal fails to deal with the fundamental problem of using what amounts to "gross" income in the basic rent calculation. (Please refer to our response to

question number 2 as detailed above.)

Past experience has shown that the time period of the disallowance is immaterial. Please note that it is already possible to employ an 11 month disallowance. Housing authorities may choose to delay accounting for increased family income until annual re-examination. In some cases this may result in an 11 month and 29 day disallowance. This practice does not appear to materially affect long-term resident demographics.

Residents will seek employment during the period of the disallowance, but will engage in one of four associated behaviors when the disallowance ends. Residents will:

- \* Quit the job
- \* Move out
- \* Remove the employed member from the lease
- \* Claim lease removal and defraud the authority

The reason for this behavior is simple. The fundamental inequities of the rent calculation system remain after the end of the disallowance. When the disallowance ends, rent is again calculated at nearly 50% of "take-home pay" for employed income compared to 30% for unemployed income.

An additional concern regarding a fixed period disallowance is its administrative burden. It will require tracking each newly employed family member individually. For those housing authorities accounting for employed income only at re-examination, it will require interim rent calculations upon expiration of the fixed period. A simpler solution is to disallow income until the second annual re-exam after employment. Mathematically, this will result in residents receiving an average disallowance of 18 months. However, it will dramatically simplify both monitoring and calculation.

**Finally, income disallowances are not effective as rent reform by themselves.** However, they can serve a purpose in the context of a comprehensive system of reform measures. Complete disallowances of income should induce persons to enter the workforce at a more rapid rate. However, it is doubtful that they will remain employed and continue to reside in public housing unless the core flaws in the rent regulations are corrected. **That is why it is essential that any rent reform bill contain the income deductions outlined in H.R. 4159 which deal with the "gross" versus "net" problem.**

*Question #4: H. R. 3838 contains a HUD initiated rent reform proposal that would make ceiling rents for public housing units reasonably related to the rental value of the units. Why do ceiling rents often exceed the reasonable rental value of public housing units, and how does*

*this impact on working families?*

The provisions in H.R. 3838 would allow PHAs to cap rents at rates closer to their actual market value. This cannot be accomplished under present statutes and regulations.

The current system ties rents directly to the family's income. Wage earners automatically pay 30% of their gross income towards rent, regardless of a unit's actual value. In some cases, a working family's monthly rent payment becomes so large that it far exceeds the market value of housing of similar condition and amenities located in the same neighborhood. Consequently, they are able to secure cheaper and/or more attractive housing in the private sector. While this is particularly true in soft rental markets, there is also a great deal of anecdotal evidence that working families leave public housing for cheaper, substandard units. This undermines the upward mobility efforts of public housing as residents flee excessively high rents before they are financially stable.

HUD, Congress, and the industry all recognize that this policy has resulted in the regrettable demographic reality that working families in public housing are becoming more and more uncommon. Current ceiling rent regulations, which factor in charges attributable to debt service and operating expenses, often result in rents too high in comparison to market value to keep wage earners in public housing. When combined with the fact that a working family's whole income is subject to rent calculation, the results have proved disastrous.

To correct this problem, the HUD Secretary is given complete discretion in terms of setting ceiling rents under H.R. 3838. While HUD has indicated it is thinking of several different approaches that can be used through rulemaking, we are apprehensive that the Department's rules might not be sufficiently expansive to address the dilemma outlined above. We are also concerned about the timeliness of HUD's rulemaking, given the Department's past track record in this arena.

A portion of HUD's new ceiling rent plan would cap rents at the 95 percentile per development. PHADA prefers the more sweeping approach included in Rep. Maxine Waters' rent reform legislation, H.R. 4159. That bill would provide three different methodologies a PHA could utilize in setting its ceiling rents. They include: the current system, using debt service and operating costs; a second plan that would allow maximum rents at the 80-90 percentile per development; and a third plan allowing agencies to cap rents using the Section 8 rent reasonableness test, which takes into account the costs of similar types of housing in the area.

We believe this more flexible approach would allow more working families to remain in public housing, eventually transitioning to the private market, consistent



with the public housing program's original intent.

*Question #5: The proposed FY 1995 HUD budget would substantially reduce public housing operating subsidies. Given that public housing rents do not cover the operating costs of public housing units, how will this proposed reduction impact on public housing developments? What kind of day-to-day maintenance in public housing developments will suffer as a result of these proposed reductions?*

The current appropriation for public housing operating subsidies is \$2.62 billion. Much to their dismay, PHAs are receiving only 95% of what they are contractually entitled to receive. This is because the overall allocation is \$144 million short of what is needed to fully augment the Performance Funding System (PFS).

HUD's proposed FY 1995 budget calls for a PFS appropriation of \$2.49 billion. In other words, HUD is proposing a net cut of more than \$100 million on top of the existing \$144 million gap. If enacted, this cut would have serious ramifications for many PHAs.

Operating costs attributable to utilities, insurance premiums, employee benefits, maintenance, and social services continue to escalate. This is accompanied by the fact that resident incomes continue to decline. When all these costs are accounted for, PHADA estimates that \$3.2 billion is required to fully fund PFS in FY 1995.

Some housing authorities would be forced to scale back many activities if their operating budgets are not funded adequately next year. The cuts, for example, would necessitate staff reductions resulting in deferred maintenance, and greater time periods for families awaiting placement in units. Social Services, which have proved vital in enhancing living conditions in public housing, might also be curtailed.

Other PHAs might be put in a situation where they are forced to deplete reserves. Ultimately, this could place some agencies in a position of financial risk, or even on HUD's list of "troubled" housing authorities. In the final analysis, it would be the nation's 3 million-plus public housing residents who would bear the brunt of the cuts.

For all of these reasons, we urge Congress to fully fund PFS in FY 1995.

*Question #6: Various proposals have been raised about relaxing the one-for-one replacement requirement for public housing demolished or disposed in a "severely distressed" project. What is the position of your organization with regard to these proposals?*



There is no question that current one-for-one replacement laws have created a "Catch 22" problem in some public housing communities, particularly those designated as "severely distressed." In many instances, PHAs cannot demolish obsolete buildings because there is not sufficient money available to replace lost units with new ones. And, because PHAs must replace units lost through demolition/disposition, they are often forced to rehabilitate obsolete or dilapidated apartments in undesirable locales.

The other problem that enters the picture is HUD's site and neighborhood standards. Under HUD's rules which protect against "impaction", PHAs cannot place new housing communities in areas with large numbers of low income families. This is true even if the community and the residents want to locate the housing at that given site. At the same time, land in more appealing areas is frequently too expensive to meet with HUD's site standards. Thus, it too, often cannot be used to fulfill replacement requirements.

PHADA has not had sufficient time to consider the various proposals, which are still in the developmental state. We understand that Rep. Collin Peterson will soon introduce a bill abolishing the one-for-one law. We plan to take up this proposal and other modifications under consideration at our next full board meeting. I should stress, however, that any plan should be sufficiently flexible in its approach, with the locality given maximum discretion in terms of the replacement policy. This would ensure that each community's unique needs could be taken into consideration.

**Testimony of John Hiscox  
Executive Director, Macon Georgia Housing Authority  
on behalf of the  
Georgia Association of  
Housing and Redevelopment Authorities  
GAHRA**

**U.S. House of Representatives  
Committee on Banking, Finance and Urban Affairs  
Honorable Henry Gonzalez, Chairman  
March 17, 1994**

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Mr. Chairman, members of the committee, my name is John Hiscox. I am Executive Director of the Macon Housing Authority, which administers 2,176 units of public housing and roughly 1,700 Section 8 properties. Today, I am appearing on behalf of the Georgia Association of Housing and Redevelopment Authorities, which represents 202 Housing Authorities administering over 58,000 units of public housing. In addition, our position Rent Reform legislation, the matter I wish to bring before you today, has been formally endorsed by Public Housing Authorities Directors Association, two major regional housing associations and more than a dozen of our fellow state organizations.

On behalf of all these, and the 300,000 low-income individuals we serve, I wish to thank you for providing GAHRA with the opportunity to testify before the committee. Allow me also to express our gratitude for your continued support of public housing and your tireless efforts to improve the lives of the people we serve together.

I am accompanied this morning by Ms. Cornelia Blassingame, a Resident Association leader from Augusta, Georgia and Ms. Judy Jackson, a Resident Association leader from Athens, Georgia. These are but two of the forty-two Public Housing Resident Association leaders from across Georgia who have accompanied housing professionals and Commissioners to Washington this week to campaign for Public Housing Rent Reform legislation. As we speak, their compatriots are on the Hill, visiting Senators and Representatives.

This is without precedent; to the best of our knowledge no other housing professional organization has ever undertaken to directly empower dozens of Resident Association representatives, who speak for thousands of their neighbors, to directly promote housing policy changes that would benefit their neighbors and their communities. In the event that there are future hearings specifically on the issue of Rent Reform, which we strongly recommend, GAHRA strongly believes that Resident Association leaders should be consulted. It is because of them that we are here.

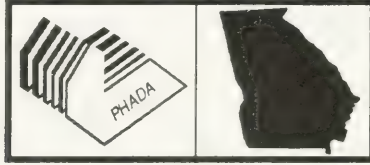
The remainder of my oral testimony is excerpted from **Rent Reform: The Missing Link is Upward Mobility for Public Housing Residents**, which is attached and submitted as our formal written testimony. I commend the entire document to your attention in the belief that it represents the most thorough documentation on this topic to date. While we do not claim to have a monopoly on understanding this issue, I think it is important to note that GAHRA was a pioneer in researching this area and many of the policy pronouncements of other housing groups and initiatives by HUD are in response to our initial efforts.

GAHRA is grateful that the Committee has taken up consideration of many of these initiatives in HR 3838, the Housing and Community Development Act of 1994, and in HR 3888 by Representative Roukema and HR 2957 by Representative Knollenberg. For the last two years, GAHRA has made securing significant Rent Reform our sole legislative priority. We chose this path and will persist in it because

we believe that no single issue has as much power to improve the welfare of the families we serve and the communities in which they live, while favorably impacting the Federal Budget. Mr. Chairman, again we thank you and the members of the Committee for your willingness to consider our recommendations on Rent Reform.

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# **PHADA/GAHRA RENT REFORM**



**THE MISSING LINK IN UPWARD MOBILITY  
FOR PUBLIC HOUSING RESIDENTS**

**Presented by:**

**The Public Housing Authorities  
Directors Association**

**and**

**The Georgia Association of  
Housing & Redevelopment Authorities, Inc.**

**Winter, 1994**

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## FOREWORD

The Public Housing Authorities Directors Association (PHADA) urges your attention to the attached position paper on rent reform, which we believe to be the most pressing legislative matter facing public housing at this time. This paper was prepared with the assistance of the Georgia Association of Housing Redevelopment Authorities (GAHRA), an early leader in this cause. PHADA is distributing it broadly to the housing industry, Congress, and other interested parties in hopes of stimulating debate and prompt action on this most important issue.

The position paper which follows is a work in progress. The PHADA/GAHRA position on rent reform has been forged stronger by examination and debate. It has maintained its original principles, but has assimilated fresh insights derived from discussion and research. We invite the reader to contribute to this process.

The purpose of this foreword is to give a sense of history to both our position and the document which follows. For several years now, PHADA and GAHRA (and most other industry organizations) have advocated that fundamental changes in the HUD rent calculation formula are an absolute necessity. We came to this belief by a first hand observation of the devastating effects that negative incentives embedded in the system have on the lives of our customers and their neighborhoods.

Recent events have caused rent reform to attain the critical mass needed to move from a nagging industry concern to a major housing issue. Like many housing organizations, GAHRA had for years included rent reform as part of its overall legislative agenda. In late 1992, however, the GAHRA Legislative Committee realized that a single-focus agenda would have far greater impact. The term "rent reform" was coined and a task force appointed to conduct policy research and press for action on this issue.

On December 15, 1992, GAHRA met with representatives from PHADA, NAHRO and CLPHA, along with staff from the Senate Housing and Urban Affairs Committee to discuss the principles of rent reform and request their assistance. Following that meeting, GAHRA presented the issue to the PHADA Housing and Legislative Committees in San Diego, where it received a strong endorsement.

Bolstered by the encouragement from these organizations, the GAHRA task force proceeded to conduct the basic research and prepare the prototype of the position paper which follows. This document was presented to members of Congress, their staff and HUD officials during the GAHRA Legislative Conference in March 1993. Immediately after those meetings, GAHRA contracted with the Housing and Development Law Institute (HDLI) to produce a draft federal statute on rent reform.

A copy of the draft legislation may or may not be attached to this position paper. However, PHADA and GAHRA will be more than willing to provide copies of the draft or additional copies of the position paper. Please call or write anyone on the "Contact Sheet" attached in the Appendix on this paper.

The PHADA Board of Trustees formally endorsed the proposed legislation at its Legislative Conference in September 1993. PHADA members and staff are currently providing organizational assistance and technical support. Rent reform is PHADA's highest priority housing policy initiative.

The results to date have been astounding, as if we had started an avalanche with a single snowball. All of the major industry groups have appointed their own task forces and/or performed rent reform research, culminating in policy pronouncements and legislative initiatives. HUD Secretary Henry Cisneros convened a broad based meeting of housing industry and advocacy representatives to strategize about rent reform, following which HUD began to produce its own policy initiatives.

More importantly, a grass roots movement in support of rent reform has arisen within the public housing industry. Dozens of state and regional associations have formally endorsed the PHADA/GAHRA effort. Many of these were working with third generation copies of the original position paper which had been passed from hand to hand. We have received calls almost daily from Housing Authorities across the country asking how they can help. As word spread, additional allies appeared: home builder's associations, state welfare departments, private industry councils, public housing resident councils, etc. News stories and positive editorials have appeared in news media across the country.

To meet the unexpected demand, GAHRA reprinted and distributed more than 1,000 copies of various editions of the original position paper, many to organizations who have subsequently recopied it. Now PHADA has responded to this need by sponsoring an updated edition which includes the most recent research figures and changes in welfare and tax policy. PHADA is underwriting the production and distribution of this document to the broadest possible universe of interested organizations and individuals.

Much important work remains to be done. There are differences between the PHADA/GAHRA positions and others emanating from the industry. But healthy debate is underway and most of the differences are of a nature that can be resolved during the legislative process. In fact, it is the nearly unanimous agreement on the core principles which convinces us that the case for rent reform has never been stronger. The Secretary of HUD, members of Congress, other industry groups, editorial writers and the public have joined our members in supporting **rent reform**. The introduction, analysis and recommendations which follow should help explain why these two simple words are so powerful and important.

## **RENT REFORM: THE MISSING LINK IN UPWARD MOBILITY FOR PUBLIC HOUSING RESIDENTS**

As our principal housing policy initiative for 1994, the Public Housing Authorities Directors Association and the Georgia Association of Housing and Redevelopment Authorities have chosen the issue of rent reform. With so much opportunity for change occasioned by a new Administration, why would PHADA and GAHRA focus their efforts so intensely on one issue? The answer is simple. There is no other issue which has such direct impact on the welfare of public housing families, the neighborhoods in which they live, and housing authorities as an institution.

Our primary concern is the economic and social well-being of the low income families we serve. We have seen how dysfunctional Federal rent policy decisions have created powerful disincentives to employment and upward mobility. The result has transformed once thriving public housing neighborhoods into welfare ghettos -- its residents robbed of opportunity and hope and its social fabric rendered inadequate to cope with challenges like drugs, crime, and youth gangs.

It is the intention of PHADA and GAHRA to do everything within our collective power to work with the Administration and the Congress to secure substantive change in Federal policy affecting the public housing rent structure. To this end, we will first identify the flaws in the existing system and demonstrate how they work to the detriment of residents and their neighborhoods. We will then offer both specific policy recommendations and discuss broader policy topics which we believe warrant further investigation. We intend to address directly the principal obstacles to rent reform -- its anticipated monetary cost and the philosophical objections of some who dispute our aims. Finally, we will discuss the benefits of rent reform to residents, Housing Authorities, and the Federal government.

### **THE IRON PENALTY: WHY THE CURRENT SYSTEM FAILS**

For two-thirds of its fifty-five year history, public housing served as a ladder for upward mobility. Families needing decent shelter moved in, got a break on their rent, got on their feet, and moved out. The families who left were usually better off than when they arrived, often moving to unsubsidized private rental housing or homeownership. Public housing alumni include many of the nation's most distinguished citizens.

All of this worked because these impoverished public housing residents had positive incentives to work hard to improve their lives. By the early 1980s, however, important changes in Federal law substituted negative incentives for positive incentives. Minimum rents were abolished and the rent-to-income ratio increased to thirty percent. Various exemptions and exclusions of earned income were eliminated. Most importantly, ceiling rents were abolished, thereby eliminating the adjustment period necessary for a family to transition from AFDC to beginning employment to self-sufficiency.

**The highest marginal "tax" rate is not paid by millionaires but rather by AFDC-dependent, public housing residents who accept a full time, minimum wage job.** Please refer to the matrix on page 4 which compares the incomes of various types of families common to public housing in Georgia, Maryland and Missouri. The purpose of this table is to clearly demonstrate the method by which public assistance policy and public housing policy interact to create powerful disincentives to employment.

## PUBLIC ASSISTANCE / PUBLIC HOUSING INCOME COMPARISON MATRIX

MONTHLY INCOME AND EXPENSES	GEORGIA				MISSOURI				NEW JERSEY				MARYLAND			
	SINGLE PARENT/THREE CHILDREN				SINGLE PARENT/THREE CHILDREN				SINGLE PARENT/THREE CHILDREN				SINGLE PARENT/THREE CHILDREN			
	INCOME SOURCE				INCOME SOURCE				INCOME SOURCE				INCOME SOURCE			
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
	AFDC ONLY	25 HRS. /WEEK @ \$4.25	40 HRS. /WEEK @ \$4.25	40 HRS. /WEEK @ \$7.35	AFDC ONLY	25 HRS. /WEEK @ \$4.25	40 HRS. /WEEK @ \$4.25	40 HRS. /WEEK @ \$7.35	AFDC ONLY	25 HRS. /WEEK @ \$4.25	40 HRS. /WEEK @ \$4.25	40 HRS. /WEEK @ \$7.35	AFDC ONLY	25 HRS. /WEEK @ \$4.25	40 HRS. /WEEK @ \$4.25	40 HRS. /WEEK @ \$7.35
EARNED INCOME	0	460	737	1274	0	460	737	1274	0	460	737	1274	0	460	737	1274
CHILD SUPPORT <sup>1</sup>	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150
AFDC BENEFITS <sup>2</sup>	330	78	0	0	342	0	0	0	488	73	0	0	441	0	0	0
EARNED INCOME CREDIT <sup>3</sup>	0	73	102	68	0	73	102	68	0	73	102	68	0	73	102	68
FOOD STAMPS	270	249	218	129	267	263	202	90	223	248	222	110	237	259	204	147
TOTAL GROSS INCOME	750	1010	1207	1621	759	946	1191	1582	861	1004	1211	1602	728	942	1193	1639
PUBLIC HOUSING RENT <sup>4</sup>	108	156	204	335	112	143	220	365	155	158	200	344	111	147	219	308
MEDICAL INSURANCE <sup>5</sup>	0	0	250	250	0	0	250	250	0	0	250	250	0	0	250	250
FICA WITHHOLDING <sup>6</sup>	0	35	56	97	0	35	56	97	0	35	56	97	0	35	56	97
CHILD CARE EXPENSE <sup>7</sup>	0	48	87	221	0	15	33	88	0	36	100	158	0	0	38	278
OTHER WORK EXPENSES	0	108	108	108	0	108	108	108	0	108	108	108	0	108	108	108
NET DISPOSABLE INCOME	642	663	502	610	647	645	524	674	706	667	497	645	617	632	522	598

## NOTES

- Child support of \$150/mo. is assumed for all families. Elimination of child support decreases rent by \$45/month. In Maryland, families whose only income is AFDC must surrender all child support to the state. Families then receive \$50 from the state.
- AFDC benefits phase out over time. This is assumed to be complete.
- Earned Income Tax Credit is shown at the maximum amount available in take home pay through "negative withholding." Additional benefits are available the following year by filing a tax return.
- Medical insurance is assumed to be available to full time employees at \$500/mo. with the employer paying 50%. This percentage may vary, but employer provided free medical insurance for dependents is rare for entry level employees.
- There are no reductions for employee benefits or for federal and state taxes. State payroll taxes are a significant factor in some states.
- Child care for two children is assumed to be available with subsidy through the State Welfare Department. The third child is assumed to be capable of self care. Market child care is much more expensive as would be care for the third child, if required.
- Work related expenses are assumed at a minimal \$5.00 per day for transportation, meals, breaks, uniforms, wardrobe, union dues, and other work related expenses. In most areas, \$5.00 per day would pay only for public transportation and lunch in a subsidized cafeteria.



Minimum wage employment actually imposes a stiff penalty on public housing residents. Notice that Georgia family # 3, whose head of household works forty hours per week at minimum wage, receives \$148 a month less disposable income than family # 1 with AFDC income only. **This is the equivalent of being taxed at the rate of 120% of gross earnings!**

It is worse when you consider that these numbers make very optimistic assumptions about work related expenses. We calculated that each working family has deeply subsidized child care for two of their three children through the Department of Family and Children's Services, and that the third child is capable of self care. We further assume that the working family pays no state or Federal income taxes and pays only \$5.00 per day for work related expenses such as transportation, uniforms, meals, union dues, etc. (In most areas, \$5.00/day will barely pay for round trip public transportation and lunch in a subsidized cafeteria.) We also assume that the working family has the good fortune to have Medicaid replaced by private health insurance with the employer paying half of the premium for family coverage.

The working resident's situation does not materially improve as earned income rises above minimum wage. Family #4, whose head of household works at \$7.35 per hour (73% above minimum wage), still has less disposable income than family #1, with AFDC only. Thus, relentless rent increases not only discourage entry into employment, but also impose long term penalties even on those who persist long enough to secure substantial improvement over entry level wages.

Because public assistance levels are different in each state, the details of this analysis vary as we look across the country. The principles, however, remain the same. Please note that the negative incentive to minimum wage employment is \$127 per month in Missouri and \$256 per month in New Jersey and \$270 per month in Maryland. **This is the equivalent of effective tax rates of 117%, 135% and 137%, respectively.** Likewise, note that the families who earn \$7.35 an hour are still no better off than they were on AFDC. This pattern of strong negative incentives holds true in every state we have checked thus far.

The impact of these policies on low income public housing residents is devastating. Public Housing Authorities can report thousands of examples of families who attempt entry level employment only to quit when they realize the effect that it will have on their rent, and hence on their net disposable income. Since this also discourages entry into the job market by young adults in the household, young women are more likely to accept permanent AFDC dependency and young men to turn to a life on the streets. Besides the monetary cost in government transfer payments and housing subsidies, the cost in human terms to individuals and society is incalculable.

As tragic as these circumstances are when they affect an individual family, they are multiplied thousands of times over when they are endlessly repeated in the high density multi-family environment of public housing. The last decade has produced a radical shift in public housing demographics, all for the worse. The experience of one medium-large PHA among our membership is more or less typical. The number of households with at least one wage earner declined from slightly less than a half of all households to less than one-sixth. Two-parent families with children declined from over 25% to less than 1.5% of the resident body. The number of households receiving at least one government transfer payment increased from just under 50% to 91%.

Please note that a significant number of the households with an employed individual also receive government transfer payments. Despite this, the average **total** income of



households containing a wage earner is \$7,124/annum, less than full-time, minimum wage employment. These adverse demographic trends occurred in spite of vigorous GED, scholarship, job training, family self-sufficiency, and resident entrepreneurship programs which did not exist in the 1970s.

These are not merely dry statistics. These are the declining vital signs of an unhealthy resident body. A decade ago, a significant block of working low-income families provided role models and contributed to neighborhood stability. Now, a teenager facing important life choices may very well reside in a building without a single resident who gets up and goes to work in the morning, particularly if he or she lives in an older, inner-city development.

By sheer concentration, this social milieu reinforces negative social outcomes such as welfare dependency, low education levels, and teen pregnancy. As these become the rule rather than the exception, they feed on themselves. It goes without saying that such a population has increased vulnerability to such adverse influences as crime, drugs, and youth gangs. Whether one is concerned with the welfare of the individual resident family or the social fabric as a whole, surely we can agree that this was not the intent of public housing.

### **BREAKING THE CHAINS: PHADA/GAHRA POLICY RECOMMENDATIONS**

PHADA and GAHRA strongly recommend that the appropriate Congressional committee initiate a thorough policy review of Public Housing rent structure, with the intention of producing the statutory changes necessary for a functional system. Congressional action is appropriate and necessary since the existing system is statutory. HUD has little regulatory latitude and the last vestiges of local discretion were swept away more than a decade ago.

Specifically, PHADA and GAHRA believe that a two step process should be utilized to repair the existing system. First, Congressional hearings should be held on the subject of rent reform. Second, legislation should be enacted which adheres to basic principles discussed later in this section.

#### **Confirming The Facts**

The first step in solving any problem is analysis. We recommend immediate congressional hearings to confirm the nationwide effect of current public housing rent regulations. Any congressional hearings should make use of the following tactics and focus on the following issues:

1. **Consult public housing administrators.** Professionals actively engaged in the day-to-day administration of a PHA can offer a realistic view of the problem. In addition, PHA staff can provide insight into the "law of unintended consequences" which seems to invariably affect the regulatory process. Washington staff and academics may be technically proficient in the quantitative issues surrounding rent reform. However, local PHA staff can more accurately predict the practical, qualitative effect that policies will have on the daily lives and behaviors of public housing residents.

2. **Public housing residents must play a role in the hearing process.** There can be no better way to determine the effect of current policies on the lives of public housing residents than to ask the customers themselves. While the input of nationally known resident leaders is important, the focus should be on the average citizen. It is their behavior and lives that will be most affected by any legislative change.
3. **Emphasize the long-term impact on Federal expenditures when evaluating the cost implications of Rent Reform.** Later we will illustrate how the short-term impact of changes in rent policy is often counter to the longer-term results. An analysis of the last major rent formula change will dramatically illustrate this fact.
4. **Examine the impact of Federal rent regulations on a variety of resident groups.** These include two-person heads of household; families with young first-time wage earners; families employed above minimum wage; and AFDC-dependent families desiring employment. The participation rates of public housing AFDC recipients in upward mobility programs (such as JOBS programs, Job Training Partnership Act programs operated by Private Industry Councils, and the HUD Family Self-Sufficiency Program) should be studied in comparison to the participation rates of non-public housing AFDC families. Similarly, the impact of excluding income derived from such programs should be examined, along with the overall impact of HUD rent policy on these programs. PHADA and GAHRA strongly believe that an objective evaluation will document that existing rent rules severely depress participation in both upward mobility programs and gainful economic activity/employment.

### **Enacting A Solution**

After confirming the negative effects of current rent policies, Congress should move swiftly to enact legislative changes. Failure to completely remove these disincentives will squander scarce national resources without achieving the desired results.

The PHADA/GAHR plan for reforming existing legislation and removing the disincentives for employment is referenced throughout this section. However, an in depth discussion of the draft legislation is not the primary purpose of this paper. Therefore, only summary information will be provided. Precise details can be obtained better by reading the actual document.

To ensure success, PHADA and GAHRA believe that legislation should be based, at a minimum, upon the following principles:

1. **Revise the HUD definition of income to provide incentives for earned income versus unearned income.** The current HUD definition of income makes no distinction between unearned income and earned income. Both are, for all practical purposes, taken at their gross. This is despite the fact that the recipient of unearned income receives 100% of their allocation, plus additional benefits such as food stamps and Medicaid. Meanwhile, the recipient of earned income takes home significantly less than their gross pay, after deduction of FICA, Federal and State taxes (if any), health insurance, and work related expenses such as transportation, uniforms, union dues, etc. The only adjustment to earned income recognized by HUD is the out of pocket cost of child care, a deduction which should certainly be retained. The net effect of this policy is that most of the working poor who reside in public housing

and are paid on a weekly basis spend two of their four paychecks each month to pay their public housing rent. This is unconscionable.

It is critical that the definition of earned income be revised in a manner which realistically calculates or approximates the **net cash proceeds** of employment rather than gross wages. Most desirable would be a percentage exclusion from gross income which combines the actual standard deductions state by state with a realistic percentage for work related expenses. If it is more politically feasible, the same could be accomplished by a single national percentage exclusion. This type of action would provide equitable treatment of the two types of income. Individuals should be at least as well off from working as they are from receiving public assistance, if not better off. In short, the playing field must be leveled.

However the deduction is determined, PHADA and GAHRA believe that the 10% exclusion from earned income authorized, but not yet funded, in the 1990 Housing Act is far from adequate. FICA alone is 7.65%, leaving virtually nothing for other deductions and work related expenses. Even food stamp eligibility computations include all unearned income but exclude 20% of earned income.

The PHADA/GAHRA draft legislation includes a specific re-definition of income with proposals for earned income exclusions. Each of the principle issues discussed above is addressed. The draft legislation provides for a 20% exclusion of earned income. It would also allow deduction of out of pocket health insurance and medical costs which exceed 3% of income, which mirrors both IRS rules and HUD rent rules for the elderly. The intent is to mitigate the loss of Medicaid for working families.

2. **Coordinate earned income exclusions and other rent reform measures with welfare reform.** As important as it is to adopt rules which realistically estimate the net cash proceeds of employment, we must point out that these would not in themselves eliminate negative incentives. Refer again to Georgia Family #3 in the matrix on page 4, whose head is employed 40 hours a week at minimum wage. A 20% income exclusion **and** a 25% rental rate applied to earned income would indeed drop this family's rent from \$212 to \$141 per month, a savings of \$71. Even under this circumstance, however, family #1 (AFDC income only) still enjoys a higher disposable income. This continuing disparity demonstrates the need to coordinate specific rent reform actions with other welfare reform measures to achieve positive economic incentives.

PHADA has provided information on rent reform to the White House Working Group on Welfare Reform. In testimony before that body, PHADA emphasized that coordination of these two efforts was essential, since more than one out of every four AFDC recipients lives in subsidized housing. In addition, we suggested forming a special sub-group of the White House Working Group to focus on integrating both of these reform efforts. While our draft legislation focuses only on public housing rent structure, PHADA and GAHRA still recommend a formal process for coordinating rent reform and welfare reform.

3. **Exclude a portion of a secondary wage earner's income.** Until the 1980s, local Housing Authorities had the option of excluding a portion of the income of those wage earners who were not the head of household. Since this has been abolished, we frequently see families devastated by what should be a happy event -- the newly

graduated high school senior (age 18 or above) securing his or her first job. If we refer back to Georgia family #1 on the matrix and assume that this family's oldest son turns 18 and secures a forty hour a week job at minimum wage, their public housing rent jumps from \$108 to \$326. Since it's likely that the new wage earner takes home approximately \$580 per month in new income and his mother loses \$50/month in AFDC benefits, our new wage earner would have to voluntarily surrender \$268/month or 46% of his net income to his parent as contribution to the increased rent.

When the newly employed member is unwilling or unable to do this, the entire family may be forced out. As an alternative, the recent high school graduate can leave his family before financially ready or perhaps quit the job. In each case, the incentive to accept that all important first job is severely undermined.

For this reason, the PHADA/GAHRA draft legislation would exclude all of the earned income of any formerly dependent child. This exclusion would be effective from their 18th birthday until the next effective date of rent redetermination after their 21st birthday, after which it is phased out over three years.

4. **Create incentives for two-person heads of household.** The destruction of family units by the social welfare system is well understood by public housing professionals. Regardless of one's belief about the causes of our exploding single-parent population, it is clear that this trend represents a serious national problem. It is recognized on the cover of national news magazines and in countless academic articles and papers. Later in this paper, we will detail the mechanisms (such as quitting a job) by which rent structure contributes to the deterioration of our families.

There should be no attempt to moralize when addressing this issue. Simply, two adults, regardless of the relationship, can provide a more nurturing environment than one. This is especially true when one or both may need to work long hours to achieve any measure of financial stability. In general, children from single parent, low income families are at greater risk for poor academic performance, criminal activity, drug abuse and lower lifetime earnings than children growing up with two adult family members. If the income tax laws of the United States can provide a break for two person heads of household, then surely public housing rent regulations can do the same.

The PHADA/GAHRA draft legislation provides for the possibility of a deliberate incentive for two-person families with children. The Secretary of HUD is allowed to promulgate regulations excluding up to an additional 10% of earned income for this group.

5. **Revise ceiling rent regulations to provide for retention of working families until they can obtain financial self-sufficiency.** Until 1982, PHAs enjoyed the local option of establishing ceiling rents. These served a vital function of allowing a new wage earner a reasonable period of time to get on their feet and make a transition to private housing. Ceiling rents, in effect, establish a time and income band in which a striving low income family actually gets to keep most of its additional income, laying the ground work for economic advancement and, for many, homeownership. The psychological impact of ceiling rents on residents should not be underestimated; the knowledge that you can earn an extra dollar, at least for a



time, without the Housing Authority grabbing its share has a liberating effect on the aspirations and behavior of residents.

It is important to point out that HUD's token ceiling rent policy is dysfunctional. HUD allows PHAs to establish ceiling rents based on the sum of average operating cost **plus** imputed debt service for the development cost of the project plus all subsequent capital improvements. This results in ceiling rents as high as \$400-\$500 for two bedroom public housing apartments, which far exceeds market value in most market areas. Besides being absurd on its face, these ceiling rents do not work to encourage employment.

A workable ceiling rent formula should be flexible enough to allow for variations in rental markets across the country. For example, they could be based on the "Rent Reasonableness" requirement already used in HUD's Section 8 Certificate Program. PHAs should have the option of establishing ceiling rents by project and bedroom size based on comparability to similar apartments with similar amenities in the same general neighborhood. This, or a similar **market-based approach**, is absolutely necessary for success. As HUD states in the preamble to the March 15, 1989 Federal Register (24CFR 913.107), "HUD believes that tenant families should not pay more in rent than comparable housing would cost on the private rental market". We heartily agree.

To that end, a significant portion of the PHADA/GAHRA draft legislation is devoted to ceiling rent reform. Three separate options are authorized for use by PHAs. Option #1 is based on debt service and operating expenses. Option #2 is based on the average rents of families residing in public housing prior to rent reform. Option #3 is based on the fair market value of comparable units in the private sector. Each option has its own adjustment mechanisms and protections from abuse. Residents are provided a three year ceiling rent with provisions for extension due to unexpected loss of income. Complete details on each option are contained in the draft legislation itself.

6. **Phase out rent exclusions and ceiling rents rather than abruptly terminating them.** People need time to become accustomed to working and to enjoy the fruits of their labors. Later, they may engage in saving and other positive economic behaviors. Public housing professionals know from past experience the effect of abrupt termination of benefits. When rent skyrockets back to unprotected levels, the family may move before they are financially secure or quit their job. Either of these outcomes is the opposite of the intent of rent reform.

Therefore, the PHADA/GAHRA draft legislation proposes a three year phase-down period for almost all of its incentives. This strategy should allow for a workable transition to a permanently improved economic condition inside or outside of public housing.

Throughout this section, reference has been made to the PHADA/GAHRA draft legislation. This document is very specific and presents many strong positions on the topic of rent reform. However, both PHADA and GAHRA stand on the principle that the **details of any rent reform plan are less important than the results**. Whatever the formula or language, it must improve both economic conditions and neighborhoods for all public housing residents.



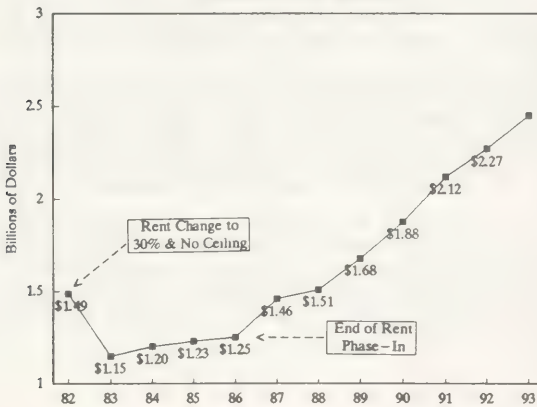
### SO WHAT'S THE PROBLEM: DEALING WITH OBJECTIONS

With all the potential benefits of rewarding positive economic behavior, why not take action immediately? The two principal objections to rent reform in public housing are financial and philosophical. The first is raised by some who assert that the result would be an immediate and continued increase in Federal outlays for Performance Funding System operating subsidies. The second, often raised by both conservatives and liberals, is based on a belief that public housing is and should be the housing of last resort for the poorest of the poor.

We would like to respond to both of these objections, beginning with the financial. Major changes in public housing rent computation methods began with the Brooke Amendment in 1968 and culminated with the abolition of ceiling rents in 1982. In that year, Federal outlays for public housing operating subsidies totaled \$1,493,459,891. In the following decade, they grew to \$2,266,934,000, an increase of 52%. At first glance, this would appear to roughly parallel inflation. The subsidy picture, however, was far from static during this period. In 1983, as the first impact of ceiling rent elimination and the thirty percent rent to income ratio took hold, subsidy outlays actually dropped over 22%, to \$1,154,366,035 as shown in the graph below. For the next three years, subsidy growth was relatively slow, averaging about 2.5%. To the casual observer, it would appear that the new rent rules were succeeding, at least as fiscal policy.

These figures, however, mask a dark undercurrent. The imposition of the thirty percent rent to income ratio was phased in for families in occupancy so that none experienced more than a 10% increase each year for five years. This meant a period of slow growth in operating subsidies as decreases in the number of working families were balanced by higher rents on those who remained. Increases were further buffered by general inertia; it took time for established families to move out or change their behavior.

**PFS SUBSIDY GROWTH  
without Rent Reform**



The graph on the previous page shows that by the late 1980s, the demographic transition within public housing caused by these rules came into full flower and began feeding on itself. The rapid decline of working families in public housing began to drive operating subsidies relentlessly upward. By 1987, subsidy was \$1,460,071,960 approximately the same as 1982. Coincidentally, the phase-in period of 10% growth caps ended in 1986. The increase from 1986 through 1992 has been an astonishing 82%, despite relatively low inflation.

According to figures quoted by former HUD Assistant Secretary Schiff in the 2-8-93 PHADA ADVOCATE, operating subsidy has increased 46% in the last four years, approximately 2.2 times inflation. Since operating subsidy basically funds the difference between the allowable expense level (the growth of which has approximated inflation) and housing authority rental income (which has not), it is obvious that the culprit is primarily rental income.

We can demonstrate that one of the principal reasons for this increase in operating subsidy is the removal of the working poor from our neighborhoods. The experience of one of our members is more or less typical. In 1982, the Macon (GA) Housing Authority housed almost 1,000 wage earners in its 2,176 units. The average rent of \$79.17 Per Unit Month (PUM) paid 54% of the Housing Authority's operational cost, the difference being paid by \$53.18 per unit month federal operating subsidy. By 1992, only 380 wage earners remained. As a result, the average rent of \$106.44 paid only 44% of total operating cost, the difference covered by \$132.94 PUM in subsidy. The increase in annual operating subsidy in the ten year period was \$2,127,961.00, over 159%. The rental income in the same decade increased only 34%.

This means that average resident income actually **declined** after inflation, taking PHA rental income down with it! At the time of their adoption, the abolition of ceiling rents and the adoption of a 30% rent to income ratio were touted as a great relief to the Federal Budget. It should be patently obvious that the effect is precisely the opposite.

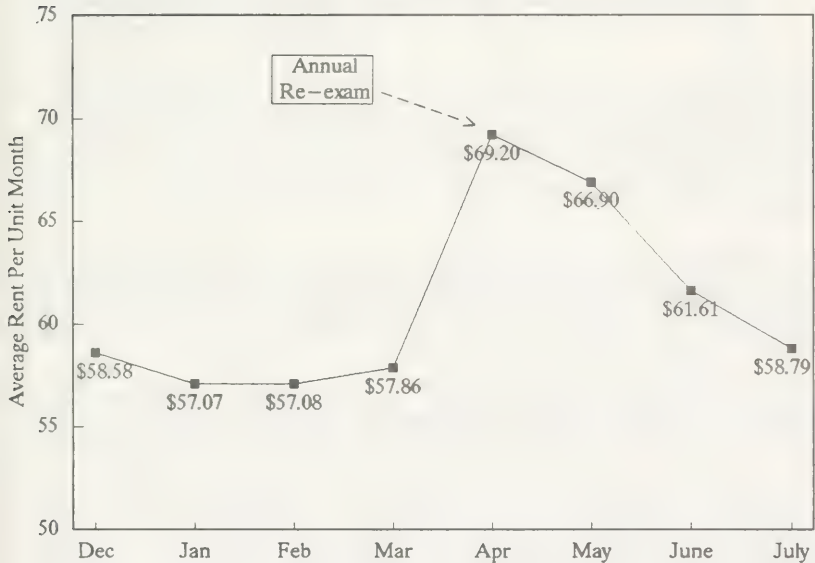
The mechanism by which this occurs is observed daily by Housing Authority staff. The head of household or other family member goes to work and dutifully reports the income as the lease requires. Within a few weeks, the family receives a rent increase effective the first of the following month. The family responds, often within days, by either:

- **Quitting the job.** This is particularly the case with young adult members of the household accepting their first job after graduation from high school. It should go without saying that if heads of household cannot afford for their 19 year olds to accept that first entry level job, the young adult's chances of permanent independence are drastically reduced. For young men, the alternative is usually the street corners; for young women it is usually AFDC dependency.
- **Moving out.** If forty hours per week employment at \$5.00 an hour were sufficient to pay for decent but modest rental housing on the open market, this would be a cause of celebration, but it is not. In the typical Georgia rental market, the family moves back to cheap but grossly substandard housing. In a tight rental market, the only choice is unconscionably high rent, whether in public or private housing.

- **Removing the offending family member (i.e. the one with the job) from the lease.** In almost every case, this involves young men whose incomes are not sufficient to allow them to live independently. They are driven out of their legitimate home into a life on the street and/or living temporarily with low-income single women, thereby contributing to the social instability of the neighborhood. In some cases, they are removed from the lease but remain in the household, setting up the family for a future fraud accusation.

Please understand that these are not "Welfare Cadillac" stories but standard patterns easily observed in any PHA. As an example, consider the recent history of Project GA007003, a 128 unit family development. As the following table shows, average rent remains more or less level until April, the effective date of annual reexaminations. Note that there is an immediate increase in the average rent, representing the reported increases in resident income. Notice also that within 90 days the average rent had returned to "normal".

**Rent Patterns  
before and after re-examination**



The average income of families that left during this period due to rent was \$10,600, equivalent to full time employment at \$5.10/hr. This is only 27% of the area median income and just over half of the \$19,500 threshold for "very low income" in the Federal definition for a family of four. These families are obviously not leaving because they have "made it".

Just as there was a short-term benefit when the federal rent rules were changed over a decade ago, there will be a short-term cost to fix it. It is beyond the ability of PHADA and GAHRA to prepare an accurate estimate on a national scale, but we believe that we do have enough data to demonstrate that **the cost would be small and temporary**. One Georgia PHA which has applied for a ceiling rent waiver estimated the cost of startup at \$1.57 PUM. They further estimate the cost of a 20% earned income exclusion to be \$5.08 PUM. Because ceiling rents apply primarily to wage earners, the total cost is less than the sum of these two. Although it is not statistically valid to extrapolate the results from one PHA to the entire public housing stock, we mention for point of reference that doing this would result in an initial one time cost of approximately \$94 million, or about 4% of current operating subsidy. We have been told that this is surprisingly close to HUD's own estimate.

The reason rent reform costs so much less than the amounts "saved" a decade ago is simple. The exodus of the working poor from public housing means that lower rents will initially apply to a great deal fewer people, since considerably fewer current residents are now employed.

While this abnormal scarcity of employed persons is true of public housing families in general, it is even more evident in two specific groups targeted by the PHADA/GAHRA legislation. Consider first the earned income of formerly dependent 18 to 23 year olds. One large Georgia PHA reports that out of 2,176 apartments, they do indeed have 171 residents in this category. However, only 26 are now employed. Applying the proposed exemptions to these households would cost only \$1.46 PUM, or less than 1% of current operating subsidy.

The number of two parent families with earned income is lower still. The same PHA referenced above only found 13 such families out of more than 2,000 units. Because they are so few in number, the cost of implementing rent reform for this group was only \$4.072 or \$.16 PUM. This is barely 1/10 of 1% of PFS operating subsidy. If this caused only **two** resident fathers not currently on the lease to report their minimum wage income, this exemption would pay for itself!

As the incentives take hold and more people become employed, the net effect will be to the benefit of the federal budget. We calculate that each family leaving AFDC to go to minimum wage employment under reasonable rent rules will still pay enough additional rent to offset the rent reductions for 1.2 to 1.6 working families already in occupancy. This alone ensures that rent reform will pay for itself in reduced operating subsidy.

The cost benefit ratio improves dramatically when FICA taxes paid and savings in AFDC, Food Stamps and Medicaid are taken into account. Please refer to the table on the following page for an analysis of these savings under various scenarios. As you can see, each family choosing to go to work will save the federal government 12 to 18 times the

amount of rent reduction for already working families. It is clear that any cost of rent reform would be more than offset by increased income and savings to other federal programs as a result of increased employment. Therefore, it is difficult to see how cost can continue to be a serious objection.

### FEDERAL SAVINGS FROM RENT REFORM

	GA. AFDC FAMILY #1* accepts \$4.25/hr. employment i.e. becomes Family #3	GA. AFDC FAMILY #1* accepts \$7.35/hr. employment i.e. becomes Family #4
<b>RENT INCREASE:</b>		
New Rent w/ 20% deduct from wages	\$160	\$248
less Old Rent based on AFDC only	(\$108)	(\$108)
Net rent increase:	\$52	\$140
<b>ADD OTHER GOVT. SAVINGS:</b>		
Fica Paid	\$56	\$97
Food Stamp Savings	\$57	\$174
AFDC Savings	\$330	\$330
Medicaid Savings**	\$517	\$517
Subtract Earned Income Credit Paid	(\$211)	(\$148)
<b>TOTAL GOVERNMENT SAVINGS:</b> for each new worker	<b>\$801</b>	<b>\$1110</b>
<b>RENT WINDFALL (for current workers):</b>		
Rent at Current Rules (i.e. no deductions)	\$204	\$335
New Rent for Current Workers	\$160	\$248
<b>LOST RENT WINDFALL:</b>	<b>\$44</b>	<b>\$87</b>
<b>SAVINGS TO WINDFALL RATIO:</b>	<b>18.2 TO 1</b>	<b>12.8 TO 1</b>

**NOTE:**

\*Families shown above refer to the Comparison Matrix on Page 4

\*\*Medicaid cost from HCFA-2002 Statistical Report on Medical Care. Costs vary by region, but savings calculated is quite close to private health insurance

Since we have shown that cost does not represent a significant obstacle, this leads to a second category of objections to rent reform. Some raise philosophical objections, believing that rent reform represents an attempt to convert low rent public housing to a program serving moderate or even middle income families. This is simply not the case. As previously demonstrated, most of the families forced out of public housing by the rent structure are not middle income but in fact fall under the federal definition of very low income (\$10,600 or less than 30% of the median income as previously cited). These are the same families whose low wage employment yields less in net disposable income than a similarly situated family receiving AFDC.

The philosophical objections are not shared by most other agencies involved in the fight to improve the upper mobility of our residents. The Georgia Department of Family and Children's Services, which is concerned by lack of public housing resident participation in the PEACH work experience program, has offered its endorsement of rent reform. The report of the Georgia Governor's Task Force on Welfare Reform endorses a rent reform demonstration. They are joined in this by Private Industry Councils, who have experienced first hand the difficulties of inducing public housing residents to accept job training.



Lest anyone stereotype public housing residents as being uninterested in employment, one member PHA recently had over 100 applicants for eight VISTA slots which pay only a \$580/month living allowance. This is equivalent to only about \$3.35/hour, less than minimum wage, but **VISTA allowances do not count against rent!**

Rent reform as envisioned by PHADA and GAHRA would not adversely impact AFDC families. It contains no penalties for individuals whose only source of income is unearned. Rather, it focuses on providing positive incentives for those desiring to enter the work force.

Even more importantly, rent reform will not materially affect the supply of low income housing available to AFDC recipients. This is simply because the families most affected are already in occupancy, not new admissions. Rent reform would not change the fact that most new admissions would continue to go to AFDC recipients. What would change, and must change, is that very low income residents would no longer be kept in permanent, welfare/housing serfdom. **If society owes these families anything above food and shelter, it is a reasonable opportunity to work and improve their own lives!**

### THE PAYOFF: BENEFITS OF RENT REFORM

What benefits do we expect from rent reform? We have mentioned or alluded to many already. However, we will recap some of the many benefits below.

We believe that we will see more stable families. Two parent heads of household will increase. More families with earned income will reside in public housing. This will include not only employed heads of household, but also younger family members over the age of eighteen who accept their critical first employment.

In time, average family income will rise and along with it rental income, with a proportionate savings in Federal operating subsidy. A range of incomes will develop instead of two-thirds of our families having annual incomes of less than \$6500. Virtually the entire residency will still meet the Federal definition of very low income (< 50% of the median), but those at the upper end of this range (\$15,000 to \$18,000 a year, or a \$7.35 an hour job) will be able to afford decent private rent housing or home ownership when their ceiling rent time expires.

We expect participation in coordinated Authority upward mobility programs to increase as well as greater participation in JTPA job training, vocational education, and JOBS programs. Families already employed but concealing income will be more likely to report their employment. Fraud prosecutions, retroactive rents, and evictions will decrease as fewer families feel compelled to conceal earned income.

For all these reasons, families will not just pass through public housing but move up and out. This progression will be aided by the example provided by hard working residents to their newer, lower income neighbors. Those moving through the system will contribute to neighborhood stability, which we expect will result in a healthier social climate.

Perhaps most importantly, more stable families and healthier neighborhoods will provide a suitable environment for raising children. The positive effects of employment on crime, drug use and gang membership are clear. If we are to restore hope and opportunity for

the people we serve, then we must begin with our youth. We can do that by giving them a safe environment and a clear vision of what it means to be a productive member of society.

### THE TIME IS NOW

PHADA and GAHRA strongly believe that the climate is right for action on rent reform. President Clinton has endorsed welfare reform. While still a candidate, his endorsement appeared on the cover of "A Mandate for Change" issued by the Progressive Policy Institute, which identified the public housing rent structure as a disincentive to employment. As President, he has created the White House Working Group on Welfare Reform, Family Support and Independence.

Secretary of HUD, Henry Cisneros, has publicly commented on rent reform on numerous occasions. Shortly after Secretary Cisneros' confirmation, he convened a meeting of public interest groups interested in rent reform and invited us to set out the case for these important changes. The Secretary has incorporated rent reform concepts into HUD's 1994 Legislative Proposals. While both HUD and industry professionals have admitted that these are not adequate to fully resolve the problem, they represent an important first step in the right direction.

The next steps in the rent reform process appear to belong to the Congress. Our nation's current fiscal crisis creates a climate for rent reform. Congress is faced with the seemingly contradictory twin mandates to minister to human needs and slow a deficit hemorrhage. In this context, we strongly believe that there is no single action affecting HUD programs which could do so much social good and still have a positive impact on the deficit.

In conclusion, the Public Housing Authorities Directors Association and the Georgia Association of Housing and Redevelopment Authorities urge the Congress to vigorously pursue rent reform in public housing. The existing public housing rent computation rules are bad public policy and they must be changed. Without such change, all public housing residents will continue to be denied that fundamental right essential to both economic and social well being, the right to better oneself through one's own efforts. The need for change has never been greater...the time for change is now.

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From Chairman Gonzalez  
**Additional Questions -- Georgia Association of Housing  
 And Redevelopment Authorities**

(Mr. John Hiscox)

1) In your study of public housing rent reform, you make a number of recommended changes to assist working families. Of your proposals, what do you believe is the most critically needed change in the way public housing rent determinations are made?

2) In your study, you recommend a three-year phasing out of any work incentives for residents such as income exclusions or ceiling rent adjustments, rather than simply terminating the incentives after a certain point. Why do you believe such a phase-down period is necessary for public housing residents?

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Honorable Henry Gonzalez  
 Chairman; U.S. House of Representatives  
 Washington, D.C. 20515

Dear Representative Gonzalez:

Thank you for the opportunity to testify before the housing subcommittee on March 17th concerning Rent Reform. I am writing to respond to the follow-up questions that you sent to the Georgia Association of Housing and Redevelopment Authorities. Please accept these as our response.

Question #1: In your study of public housing Rent Reform, you make a number of recommended changes to assist working families. Of your proposals, what do you believe is the most critically needed change in the way public housing rent determinations are made?

Response #1: Clearly, the 20% exemption from earned income is the most critically needed Rent Reform. This change is necessary to enable the rent of a working family to be based on at least a rough approximation of their take home pay, thus putting it on a more-or-less level playing field with unearned income. Without this change, the principle negative incentive to employment will remain in place.

Rather than the flat 20% exemption, we have heard a variety of alternative proposals. Some have suggested construction of a formula that varied state by state, taking into account the differences in state and local taxes. Others have suggested individual computation of each resident's take home pay, with deductions for such items as uniforms, safety shoes, etc. The flat 20% rate, which is coincidentally the deduction used by the Department of Agriculture in the Food Stamp program, offers ease of computation. Further, we believe that the more easily residents understand the incentive, the more likely they are to use it.

Some other proposals have stated that 20% exemption is unnecessary if we have either short term exemptions for new wage earners or the ceiling rents. While both of these are important in their own way, we must recognize basic facts about the actual incomes and rents of



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public housing residents. For starters, entry level employment neither gets a family out of poverty nor does it raise rents to the point that a family would benefit from ceiling rents. The proposed 18 month exemption of all earned income will indeed induce families to join the work force, but most will leave it or move as soon as the exemption expires. These same families will then never make it to ceiling rents, because they would have to persist in an employment long enough for their income to at least double minimum wage.

There will be many families who take advantage of Rent Reform in order to begin their march up and out. There will, however, be others who make the transition to employment that pays minimum wage or some what above, but still need public housing over an extended period of time. This is not bad, for self support it is still preferable in most ways to permanent welfare dependency. The 20% exemption for earned income allows such a family to survive without sliding back into welfare.

We have seen some proposals that recommend just implementing the 10% exemption provided for in the 1990 Act but never funded. At the same time, we also seen proposals to immediately apply this to Section 8 as well as public housing. This raises an immediate temptation to strike an apparently reasonable compromise, namely to provide half as much Rent Reform to twice as many people. This would be a tragic mistake! The immediate short term cost would be about the same, but there would be little if any benefit. This is because the 10%, which barely covers FICA, is not sufficient to put earned and unearned income on a level playing field. Far better to enact meaningful Rent Reform in public housing first, where residents have the additional handicap of physical and economic ghettoization. When we have proven that it works and will save money, as we are certain it must, then apply it to Section 8.

Last but not least, I would like to point out that all of the Rent Reform measures that we propose work best as an integrated whole. Temporary exemptions from earned income, which are not in our proposal but in the administrations Bill, encourage quick entry into the job market. Our proposed exemptions for formerly dependent adult children have the same effect, encouraging 18 to 21 year olds to accept that critical first job. Once in the job market, the 20% exemption from earned income helps to keep residents employed. As their incomes grow, they benefit from ceiling rent, during which time the family learns to pay an amount which approximates the rent of private housing on the open market. After a reasonable time to adjust (3 years), the ceiling rent phases out over a three year period, which encourages the family which is able to pay the market price for housing to move on to private rental or home ownership, freeing an assisted unit for a

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very low income family. Throughout this process, gainful employment and neighborhood stability are encouraged, a process that is also reinforced by the least expensive Rent Reform of all, the 10% exemption of the earned income of two parent families.

Can we afford all of this? I hope that during our testimony we adequately documented the means by which PFS operating subsidy is rising 2.2 times the inflation rate and the mechanisms by which Rent Reform could reverse this trend. Do not take our word for it; new figures just provided by HUD tell an amazing story. In 1981, before the last disastrous round of changes in the federal rent system, public housing residents averaged 33% of the median income. This was very low income to be sure, but included a healthy percentage of working families. By 1993, the average income of a public housing resident had declined to 17% of the median, mainly due to the mass exodus of working low income families. HUD now calculates that if we were serving the same clientele that we were serving in 1981, the demand for PFS operating subsidy would have declined from the current level of 2.53 billion dollars to under 500 million, a reduction of over 80%! From these figures it is obvious that even a modest change in our public housing demographics would pay for Rent Reform many times over.

Question #2: In your study, you recommend a three year phasing out of any work incentives for residents such as income exclusions or ceiling rent adjustments, rather than simply terminating the incentives after a certain point. Why do you believe such a phase down period is necessary for public housing residents?

Response #2: Actually, the GAHRA position does not favor the phase out of the most important work incentive, namely the 20% exclusion from earned income. As explained above, this is primarily because we believe that some families that enter the job will remain at the \$4.25 to \$7.50 per hour for an extended period of time. In this situation, their incomes are still too low to afford unsubsidized private rental housing or to benefit from ceiling rents. It would be unwise to pull this incentive after such a short period of time, only to see the family slide back into welfare dependency.

GAHRA does, however, propose a three year phase out for both ceiling rents and the earned income exemption for formerly dependent children. In the case of ceiling rents, we believe that three years of paying a rent comparable to private rental housing, followed by an additional three year phase out of the benefits is sufficient time for most families to prepare for the transition to the private market. In considering the three year phase out, we were at tempting to strike a fair balance between the advantages of keeping the family in residency as opposed to the advantages of them moving out. The former include the family's stabilizing Rep.

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influence on the neighborhood, their benefit from a lower rent, and higher rental income to the Housing Authority, which lowers PFS operating subsidy. The later includes graduation of the family to independence and freeing their unit for admission of a very low income family.

While we believe that a three year benefit followed by a three year phase out is a reasonable compromise, we are certainly open to other recommendations. We understand that NAHRO has originally proposed a five year ceiling rent followed by a five year phase out. While this may be more than what we need in much of the country, I could understand why it would be necessary in some tight housing markets such as New York City. We would have no objection to the NAHRO proposal but suggest that if it is adopted the legislation might want to allow Housing Authorities to establish shorter phase out periods by local policy if they wish. After all, all ceiling rents would be a local option in our proposals.

Concerning the phase out of the exemption of the earnings of formerly dependent children, we again attempted to strike a balanced compromise. Before we discuss how to phase it out, please allow me a moment to explain why it is so important to leave it in the first place. Our recent statistics show that unemployment among 18 to 21 year olds who are not heads of households exceeds 85%. On one hand this is certainly a tragedy, indicating that the negative incentives built into the current rent system are leading young women to choose AFDC and young men to choose the street corner. On the other hand, this statistic shows a great opportunity; since there are so few currently employed residents in this age group, the cost of implementing the incentive is negligible.

But should we encourage them to stay at home and pay no rent until they are 35 years old? We doubt it. Three years of gainful employment at ages 18, 19 and 20 will help establish work as a life long habit, while a three year phase out will encourage the young adult to leave the nest about the time most are ready. If the individual chooses to stay with the family beyond the phase out, we feel that there is no reason why he or she should not contribute to the family's rent on the same basis as any other wage earner. Please do note, however, that our proposed 20% exemption from earned income would still apply and the family in this position would at least not have the incentive to abandon employment for public assistance.

\* \* \* \* \*

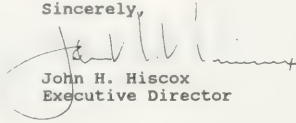
Again the Georgia Association of Housing and Redevelopment Authorities would like to thank you for the opportunity to present

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our views on Rent Reform. As your committee considers this important legislation, we want you to know that we are available to your staff to assist in any way that we can. Please do not hesitate to call on us.

Sincerely,



John H. Hiscox  
Executive Director

JHH/cb

# National Housing Law Project

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## STATEMENT

OF THE NATIONAL HOUSING LAW PROJECT

FOR THE HEARING HELD BY

THE SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT

OF THE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

ON THE 1994 AUTHORIZING LEGISLATION

THURSDAY, MARCH 17, 1994, 10:00 A.M.

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## STATEMENT OF THE NATIONAL HOUSING LAW PROJECT

The National Housing Law Project is quite appreciative of this opportunity to present to the Subcommittee on Housing of the House Committee on Banking, Finance and Urban Affairs its views on the legislation that will re-authorize the federal housing programs this year. For twenty-five years the project has served as a back-up center for attorneys around the country who represent low-income people on housing matters. It is from that experience and the experiences of their clients, the intended beneficiaries of the federal government's housing programs, that we derive the views that we present today. In addition, for the past year we have been working closely with a group of legal services attorneys to develop suggestions for the improvement of HUD's tenant-based assistance programs. Many of the points we make today grow out of that collaboration.

The most important point for this Committee and the Congress as a whole to address is that there is a desperate need for more federal housing assistance for the impoverished and working poor people who live in this country. The Department of Housing and Urban Development's own study of worst case housing needs shows that there are over 5 million families who are in dire need of housing assistance but cannot get it because of the inadequate allocation of housing assistance. Thus the most important step is to raise the level federal housing assistance so that more families and no individuals are left without a place to live.

IMPROVING AND CONSOLIDATING  
THE CERTIFICATE AND VOUCHER PROGRAMS

METROPOLITAN AND AREA-WIDE ADMINISTRATION

The federal housing programs should be administered in a manner that ensures that every eligible household applying for housing assistance will have equal access to all of the assisted housing programs serving the housing market area. However, that goal can never be achieved with the current, balkanized system for administering Section 8 assistance through thousands of public housing agencies nationwide, hundreds of PHAs in some housing market areas, and tens of PHAs in most.

The current system is administratively complicated and unnecessarily costly. HUD not only has to divide up the funds appropriated by Congress among the different housing market areas in the country. It then has to decide which PHAs within each area it will award funds to and how much each will get. With tens and hundreds of PHAs operating separate programs, economies of scale are lost. When families apply to more than one PHA, as

they are entitled to do, each PHA processes the application separately, causing duplicative, unjustified administrative costs. When the participants exercise their portability rights, inefficient systems for cross-billing arise.

The current system also unfairly dictates who receives the desperately needed, but inadequate, housing assistance that our country provides. To secure a fair shot at the assistance that is available, those seeking Section 8 must first find the multiple PHAs in the area and then file applications with each. The people who have the greatest need - homeless people and people with the lowest incomes - are the least able to find all the PHAs, get to them and file the multiple applications. In addition, the process of allocating limited funds to the different PHAs is so imperfect, that the amount of assistance that each PHA receives is not commensurate with needs of the families within its geographical area.

More egregious than the waste and inequity is the fact that the present system promotes residential segregation by race or at least allows to flourish. With separate PHAs administering Section 8 in each city and each of those cities' neighboring towns, applicants tend to apply to their own PHAs, not those of the cities from which they have been excluded on grounds of race. The segregative effects of that tendency are compounded when the PHAs are allowed, as they have been throughout the history of the program, to grant preference for applicants who already reside in their towns. The inequity is again compounded when the system for allocating funds directs a disproportionately high share of the funds to the predominantly white towns. Portability provides a partial solution, at best, because the complications in administering it discourage tenants from exercising their portability rights and PHAs from freely acknowledging them.

In response to these inequities, legislation consolidating the tenant-based programs should establish a mechanism for HUD to have regional ("metropolitan" or "area-wide") administrators operate at least the participant selection aspects of the Section 8 tenant-based program. The functions of the metropolitan or area-wide administrator would be either to administer the entire program or to function as a participant selection agency that would refer households selected for participation to the PHAs in the neighborhood where they want to live. The scope of the metropolitan or area-wide administrator's role should be determined by competitive application. That allows a high degree of flexibility to address the wide variety of subsidy delivery systems that are already in place across the country. Additionally, this approach allows flexibility to address the variety of demographic and geographic issues present in different housing markets.

Under this system, HUD would save administrative resources,

because it would only have to allocate funds to the metropolitan wide areas and the larger non-metropolitan regions and it would contract with many fewer PHAs. The burdens on applicants would be reduced, because they would have to file only one application the offices that receive applications could be located conveniently throughout the administrative area. Only one agency would have to review the applications. There would be no need for residency preferences because virtually all the applicants would be residents of the metro or area wide agency's geographic boundaries. Nor would there be much need for portability, as most of the neighborhoods which a participant might wish to move to would also be within the agency's geographic boundaries.

#### PORTABILITY

In the past, the portability feature was added to the tenant-based programs to give participants the choice of moving beyond the narrow boundaries of the particular PHA from which they received their certificate or voucher. Nonetheless, implementation of the portability feature has not been without administrative difficulties, including delay, resistance and billing complications. If the metropolitan or area wide approach described above were implemented, most of the portability problems would disappear. The boundaries of the administering agency would be expanded to include most of the locations in which the participants would want to live and thus there would be many fewer portability moves.

Apart from the metropolitan-wide administration of the program, there are still the problems created by the twelve month waiting period added by Section 147 of the 1992 housing legislation. 42 U.S.C.A. § 1437f(r)(1). That provision requires families to find a place to live within the jurisdiction of the issuing PHA for 12 months before being allowed to exercise their portability rights. It has created sufficient controversy and unintended results to require amendment. At a minimum, it should be made optional with the PHA and ten percent of the PHA's certificates should be exempt from the restriction, as would be the case under H.R. 3838. In addition, waivers should be built in for families that can not find housing in the issuing jurisdiction despite good faith efforts to do so or who have good cause to reside in another jurisdiction.

#### COUNSELING AND ASSISTANCE IN FINDING UNITS

The premise of the certificate and voucher programs has always been that the participating families would have more freedom to choose where they would live with tenant-based assistance as contrasted with project-based assistance. With that freedom, they would be able to live in neighborhoods that were less economically and racially concentrated and would have a greater selection of housing that is in decent condition. Even

apart from those goals, for the tenant-based programs to be effective and equitable, private market landlords must be willing to participate in the program and all participants must have access to the housing those landlords own.

Little of the potential of tenant-based rental assistance to promote housing choice has been realized. The families often have had little choice among landlords who would participate in the programs. In many situations they have had to live in substandard housing because the reluctance of PHAs to crackdown too sharply on the landlords for fear of driving them out of the programs. In some jurisdictions, the turn-back rate of subsidies due to families' inability to locate qualifying housing is as high as 50% and is approximately 25% on average.

Participants can have a greater choice in neighborhoods and the turn-back rate can be drastically reduced, if PHAs aggressively recruit landlords to participate and assist families to locate a qualifying unit to rent, but such assistance is rarely provided by public housing agencies. The statute should be amended to clearly oblige the housing agencies to recruit sufficient participating landlords to enable all certificate holders to locate suitable housing in a community of their choice, including communities in which their racial or ethnic group does not predominate and communities without an undue concentration of persons living in poverty. The amendment should also oblige PHAs to make available counseling and housing search assistance available to all certificate holders, directly or through third parties.

#### DISCRIMINATION AGAINST CERTIFICATE AND VOUCHER HOLDERS

One of the reasons that the tenant-based programs have been less successful than they should be is that a large number of landlords refuse to rent to certificate or voucher holders. Congress has attacked this problem in a piecemeal fashion over the years. In 1987, it made it unlawful for most landlords who participate in the Section 8 program to refuse to rent to certificate or voucher holders. 42 U.S.C.A. § 1437f(t). Landlords who acquire projects from HUD under its multifamily property disposition program cannot refuse to accept certificates. 12 U.S.C.A. § 1701z-12 (West 1989). Rent Supplement, Section 202, Section 236 and Section 221(d)(3) BMIR landlords are barred from discriminating against certificate or voucher holders. Pub. L. No. 100-242, Section 183, 101 Stat. 1872 (1987). Tax Credit landlords were added to the list in last year's tax bill. 26 U.S.C.A. § 42(h)(6)(B)(iv).

One of the problems with the current approach of Section 8(t) is that it sometimes discourages landlords from entering into the tenant-based assistance programs in the first place, because of fears that doing so will make them subject to this



obligation not to discriminate against assisted tenants when renting other apartments. The best way to avoid this unintended side-effect is to prohibit all landlords from refusing to rent to participants in the federal housing assistance programs because they are such participants. That would also consolidate and simplify the law on discrimination against federally assisted tenants.

Congress can enact legislation making it unlawful for all landlords to discriminate against participants in the federal housing programs, even if those landlords have not previously accepted federal subsidies. Congress has the power under the commerce clause of the federal Constitution to prohibit invidious discrimination that affects interstate commerce. Heart of Atlanta Motel, Inc. v. United States, 379 U.S. 241 (1964). It has long been established that the federal housing programs affect interstate commerce. Ellis v. Department of Housing and Urban Development, 551 F.2d 13, 15-16 (3rd Cir 1977); Winningham v. Department of Housing and Urban Development, 512 F.2d 617, 621 (5th Cir. 1975).

#### PAYMENTS ABOVE 30 PERCENT OF TENANT'S INCOME

The most significant statutory difference between the certificate and voucher programs is that tenants in the voucher program have to pay more than 30 percent of their incomes for rent if the landlord charges more than the payment standard. In the certificate program, the landlords cannot charge more than the FMR limits and thus the tenants cannot be required to pay more than 30 percent.

In legislation submitted last year, the administration proposed that Congress shift exclusively to the voucher approach, limiting the government subsidy to the difference between the payment standard and 30% of the tenants' incomes and allowing the tenants to pay extra rent if the landlords want to charge more.

That approach might save the government money, but it would substantially frustrate achievement of the program's goals. When the subsidy levels are too low, the poorest voucher holders have much more difficulty participating in the program. The excess rent above the payment standards charged by the landlords, which the tenants have to pay, more rapidly increases their rent burdens to levels, such as 50% of income, that neither they nor prospective landlords can tolerate. Control of the FMR level must remain in the hands of HUD. If the PHAs are given the option of setting a payment standard at a lower level, they will have little incentive not to do so and tenants will end up paying the additional rent out of their own pockets.

If landlords are to be allowed to charge more than the FMR and tenants are to be allowed to pay the extra out of their own



pockets, the number of participants doing that must be limited to 10% of the participants in the PHA's program. To ensure that most participants will be able to rent homes at or below the FMR, statutory standards must be prescribed to ensure that HUD sets the FMR at an adequate level. If that is done, the 10% cap is not likely to be reached. In any case in which more than 5% of the participants are paying excess rents, PHAs should be required to recruit landlords more aggressively. If the percentage paying excess rents reaches 10%, HUD should automatically review the FMRs and readjust them, if necessary.

To prevent landlords from getting a windfall in any cases where the FMRs are above the market for the units being subsidized, the PHAs are now obliged to make sure that the rents are reasonable. In cases where the tenant proposes to pay more than 30% of income for rent, the PHA should similarly determine that the rent is reasonable and assist the tenant in negotiating with the landlord. There should not be provisions that would authorize a PHA to refuse to approve a lease if the rent were too high a percentage of the tenant's income. Such a requirement would only limit the certificate holder's chances of securing housing.

#### SETTING FMRs AT THE 40TH PERCENTILE

The Administration's budget, as another cost savings measure, proposes setting the FMRs at the 40th percentile of rents paid by recent movers. That proposal parallels an identical proposal made by the Reagan Administration in December 1982. 47 Fed. Reg. 55764 (December 13, 1982). In the end, the Reagan administration rejected the 40th percentile approach and settled on the 45th percentile standard currently being used. 48 Fed. Reg. 43,578 (September 23, 1983). Prior to that change, the FMRs had been set at the 50th percentile of rents paid by recent movers.

There is no sound justification for this proposal, given the fact that one out of five certificate holders turn their certificates back in, that the turn back rate is even higher in many cities, that the Reagan administration decided that the 40th percentile would be too low in 1983, and that prior to 1982, the 50th percentile was the standard. The statute should be amended to prohibit HUD from setting the FMR below the 45th percentile.

#### LOWER ANNUAL ADJUSTMENT FACTORS FOR STAYERS

Landlords who participate in the program are allowed to increase their rents annually by a factor, called the annual adjustment factor, set by HUD to reflect rent increases prevailing in the local market. The administration's budget also proposes that the AAF for landlords whose tenants do not move be set one percentage point below the AAF available to other

landlords.

Historically we have received substantial numbers of calls from attorneys representing tenants whose landlords are refusing to continue in the program because the rents they would be allowed by the AAF are too low. To make this change that HUD proposes would just exacerbate what is already a desperate situation for many tenants.

#### PREFERENCES

To correct erroneous interpretations of the statutory provisions regarding preferences for housing assistance, two minor changes should be made in the statute. First, a cross-reference should be made to the McKinney Act definition of homeless at 42 U.S.C. § 11302(a). HUD's regulatory definition excludes those without any "fixed, regular and adequate night time residence" unless they are sleeping in a "shelter, an institution, or a public or private place not designed for or ordinarily used as a regular sleeping accommodation for human beings." This unduly restrictive definition, which conflicts with the definition of "homeless" in the McKinney Act, prevents those families who are moving among unstable, inadequate temporary doubled-up situations from qualifying for federal preference in most cases. As these are the families most likely to enter shelters according to all available studies, HUD's restrictive interpretation of the current statutory language inhibits PHAs from meeting homelessness prevention goals, and contributes to the continued escalation of the number of families in emergency shelters as well as increasing family instability.

Second, the statute should specify that families living in transitional housing are included in the "substandard housing" category. Currently, HUD's regulatory definition of homeless includes only individuals in transitional housing for the mentally ill. In light of the increasing use of transitional housing and the lack of affordable permanent housing for those who complete transitional programs, the federal preferences should be clarified to include all transitional housing settings.

#### REMEDIES FOR VIOLATION OF HOUSING QUALITY STANDARDS

Ensuring that participating landlords maintain their units in decent condition is vital to the success of the program. Otherwise, HUD's housing assistance programs will just provide the landlords more rental income without providing the tenants decent places to live. There are, however, circumstances where PHAs' practices regarding enforcement of the housing quality standards merely result in the tenants losing their subsidies instead of securing decent housing. If the PHA too rapidly terminates the landlord's HAP contract when housing quality standard violations are found, the tenant has no option but to

get a new certificate or voucher and try to find a new place to live. In many tight housing markets, it is not possible to find another place and the tenant ends up turning in the certificate or voucher and having no subsidy and no housing.

In these circumstances it is important to ensure that:

(1) all steps are explored to get the landlord to make the repairs;

(2) alternative means of securing the repairs are made available, such as authorizing the tenants or PHAs to have the work done;

(3) the tenants are fully informed of the actions that are being taken and of their options and responsibilities;

(4) the tenants are not evicted by their landlords if the PHA withholds the subsidy payments because of HSQ violations; and

(4) the tenants are ensured adequate time and resources, if they eventually have to move.

H.R. 3838 has provisions on this point but could be strengthened as far as eviction prevention is concerned.

#### DENIAL, REDUCTION OR TERMINATION OF HOUSING ASSISTANCE

Under the Constitution tenants whose assistance is being reduced or terminated and applicants who are rejected are entitled to be heard on their side of the case. After much litigation HUD finally recognized this longstanding principle of constitutional law. Unfortunately, too often in practice the hearings prescribed by HUD's regulations are merely exercises in which the initial PHA decisions are just rubber-stamped by hearing officers who are not impartial.

HUD's current regulations authorize "in house" review by persons who are employed by the PHA and who have regular access to the participant's file and daily contact with the participants' counselors who have made the initial decisions. The participants have only a brief period in which to request review and minimal time to prepare for the hearing. The PHAs place the burden on the participant to prove the PHA wrong. The hearing "officer" is permitted to rely upon uncorroborated hearsay of unidentified informants. Participants are not granted a right to conduct discovery in advance of the informal review. HUD needs to be instructed to make sure that the PHAs' hearing procedures are truly an opportunity for the tenant to be heard by an impartial decision-maker.

#### EVICTON NOTICES

Because in many states evictions are handled summarily once they get to court, tenants need time between the eviction notice and the filing of court proceedings to tender rent, defend against arbitrary eviction actions, or to find other housing if they are notified of the landlord's proposed action. H.R. 3838 would amend Section 8 to require a 30-day notice of termination of tenancy, except in nonpayment cases, in which case a 14-day termination notice would be required. It would also require eviction notices to specify the grounds for eviction. Both those changes are desirable. The bill would also require inclusion of these provisions in the lease to apprise tenants of their rights and alert courts to the special nature of the tenancy and the requirements for eviction.

#### FAMILY SELF-SUFFICIENCY PROGRAM

Under the current law, a PHA is authorized to terminate Section 8 assistance if a family participates in the family self-sufficiency (FSS) program and fails to comply with the FSS contract. Taking away the housing subsidy that a family needs to secure a decent place to live is a severe and unnecessary penalty to impose on a family that does not succeed in its efforts to become financially self-sufficient. It also deters families that are already participating in the Section 8 program from signing up for the FSS program. Thus that sanction should be repealed.

The FSS statute should also be clarified to specify that a family need only be independent of income assistance under the AFDC program or state general assistance in order to receive its escrowed earnings. That clarification is necessary because HUD, in its FSS program rules, defined "income assistance" to include child and health care assistance, SSI, food stamps, etc.

#### HOMEOWNERSHIP

The Section 8 homeownership option should be changed in several respects. First the provision limiting eligibility to employed families should be eliminated. The homeownership option should be available to any Section 8 recipient. The source of the family's income should not determine the family's eligibility. Second, FmHA's Section 502 program should not be listed among the programs that cannot be used in conjunction with a Section 8 Homeownership program. That change will put families in rural areas who qualify for Farmers Home Administration loans on a par with non-rural families who qualify for FHA-insured mortgages.

The section on reversion to rental status is unduly harsh. It authorizes a termination of a family's Section 8 subsidy and loss of the home upon any default on a government-insured mortgage on the property. The section does not recognize that the default may be a mistake or may have been caused by

circumstances beyond the family's control. A family with a government-insured mortgage who is making payments on the mortgage pursuant to Section 8 should be treated as any other family which defaults on a mortgage. The family should not lose the property until foreclosure. The better way of dealing with the issue of default is to provide the family with all the protections of mortgage assignment or loan forbearance as provided to other homeowners with government-insured mortgages.

The current provision on reimbursement of the escrow account should also be eliminated. No family should be required to repay the escrow account if the default was caused by circumstances beyond the family's control or if deficiency judgments are precluded by state law or if the property is sold for an amount in excess of the outstanding mortgage.

#### FAMILY UNIFICATION

There is a desperate need for housing assistance in this country and every effort must be made to ensure that our housing programs reach everyone who needs help. Until that goal is reached, it is important to recognize that some categories of people have extraordinary needs that should be met first. Congress has done that by creating the family unification program under which Section 8 is provided to families whose children are about to be or have been placed in foster care because the family cannot secure adequate housing.

That program not only works for the families whom it directly assists, but it also builds bridges between agencies who work to assist the families and the housing agencies. Once those agencies begin to work together they find new ways to address the problems of families that otherwise would be split up because of lack of housing. Programs like that, which meet to extraordinarily compelling needs of families in special situations, should be continued.

#### HOMELESS PEOPLE

The Administration's budget also proposes a set-aside of tenant-based assistance for 15,000 homeless individuals or families. That set-aside should be adopted because homeless families need access to permanent housing to achieve stability and end their homelessness. Tenant-based assistance can provide permanent housing to those families immediately and will have a demonstrable impact on HUD's efforts to shift resources for homeless people away from emergency and temporary solutions.



INCREASING EMPLOYMENT OPPORTUNITIES AND EMPLOYMENT  
AMONG PUBLIC AND ASSISTED HOUSING TENANTS

### DEFERRING RENT INCREASES

It is extremely important to modify the statutory provisions concerning rents paid by employed and newly employed tenants. Postponing the rent increase for newly employed public housing tenants for 18 months, as Section 111 of H.R. 3838 would do, is a wise policy and a good first step. There is no need to include the language making that change effective only if appropriations are provided to cover additional costs. This amendment merely substitutes slightly modified language for a provision that is already in the law and not subject to appropriations in advance. Thus budget compliance does not require advance appropriations for this provision.

The bill should be extended to cover Section 8, Section 236 and Rent Supplement tenants, not merely public housing tenants. The other tenants' rents are also based upon income and they face similar adjustment problems when they shift from welfare to earned income. The bill should also specify that the changes become effective immediately upon enactment. The provision in the 1990 Act which Section 111 would replace has been on the books for more than three years now, but HUD has done nothing to implement it. The best way to prevent the same thing from happening with this new provision is to make it effective immediately.

The language in the bill that is intended to protect public housing tenants from losing the rights they already secured from the 1990 Act needs to be rewritten. See Sec. 111(b). To effectively protect public housing tenants to whom the 1990 Act applies, the bill should straightforwardly provide that their rights shall not be reduced or impaired by enactment of this amendment.

### PREFERENCE FOR WORKING PEOPLE

The administration's budget proposes that Congress create a super-preference for working families for admission to public and assisted housing. Although we support changes that will create employment opportunities for assisted housing tenants who are poor and remove financial penalties imposed upon them if they switch from welfare to work, we cannot support an admission preference for working families.

Among the 5 million families with no housing assistance and worst case housing needs, there are many for whom employment is not part of their current lives nor likely to be in the future,

for reasons beyond their control. They are people who are elderly and people with disabilities and people who take care of young children at home and people who are discriminated against in the employment market and people who have been poorly educated and for people whom our economy does not produce enough jobs. If a preference for working people is created, those people will always be skipped over in line by applicants who have a job and will wait for housing assistance that will never be offered to them. Their plight will continue forever. They, and their children, will have been written off by HUD, by Congress, by this country. That is not what the 1949 housing goal was all about.

Creating a preference for people who are employed will also undermine the family self-sufficiency programs and the welfare reform proposals. The policy behind those programs and proposals is to open up opportunities for long-term unemployed welfare recipients to become employed. A decent, stable and affordable home is crucial to the success of those efforts, but such a home is beyond the reach of virtually all of those families without housing assistance. If applicants who already have jobs are given preference over those without jobs, long-term unemployed welfare recipients will never be admitted to public housing or received tenant-based assistance.

### SECTION 3

Section 3 of the Housing and Urban Development Act of 1968 was intended to target employment, training and contracting opportunities created by federal housing and community development funds to low income residents of the areas where the funds were to be spent. It was amended in 1992 to strengthen its requirements, but one phrase was added that may have the effect of completely frustrating the policy of the statute. That phrase mandates that obligations to direct jobs, contracts and training may only be imposed if they are "consistent with existing Federal, State and local laws and regulations". HUD appears to be ready to interpret that language to mean that a state or local law requiring acceptance of the lowest bid could override a Section 3 requirement that a PHA award a contract to a construction firm that will train and employ public housing tenants. To prevent that from happening the offending phrase should be repealed or, at least, clarified to preempt any state or local laws that would undermine the purposes of Section 3.

Originally Section 3 was intended to apply not only to employment opportunities but also opportunities to supply materials and services. In the 1992 revisions, the obligations to prefer business concerns that provide economic opportunities low income people were may applicable only to "contracts for work." It appears that HUD's regulations will interpret contracts for work to include only contracts for jobs not contracts to supply the materials that will be used in the work. For example,

if a modernization contract involves replacing window screens, HUD's regulations would not require the contractor to give preference in selecting a supplier of the screens to a company that employs or is owned by tenants of the project. Therefore, Congress should clarify the applicability of the statute to material and supply contracts, thus more fully and reasonably extending the statute's benefits to the low and very low income persons intended to be served.

#### HUD MULTIFAMILY PROPERTY DISPOSITION

Revision of the statute governing HUD's multifamily property disposition program has been to subject of intensive legislative activity during the past 8 months. See H.R.3400 and S.1299. Sections 431-35 of H.R. 3838 contain new provisions dealing with property disposition, although earlier legislative action may render consideration of those provisions moot. Whatever the context in which these revisions are made, there are certain facts that must be considered and fundamental principles that should be preserved. They are:

1. These properties provide homes for thousands of very low income families.
2. Effective measures must be included to protect current tenants from being displaced as a result of HUD's disposition of the properties.
3. The number of households in these projects for whom the government provided project-based assistance in the past should not be reduced as a result of HUD's disposition of the properties.
4. When units that otherwise would receive project-based subsidies are traded for other units, the substitute units must receive project-based subsidies.
5. If alternative uses are to be permitted for some of the projects sold by HUD, strict limits must be set on the number of units dedicated to alternative uses.
6. If tenant-based subsidies are to be substituted for project-based subsidies in some cases, the "soft market" test for determining whether that can be done must carefully guarantee that families that would have been served by the project-based subsidies will be able to use the tenant-based subsidies. In addition HUD must be required to ensure that the portable subsidies are successfully used.
7. Measures should be included to protect this stock as a resource for future low-income use by imposing low and very low income occupancy requirements, and flat rent restrictions for all

units that do not receive project-based Section 8 subsidies.

8. Purchasers must be obligated to repair the properties and maintain them in decent, safe and sanitary condition and HUD must be obligated to ensure that the purchasers perform.

There should also be an independent evaluation of the program and a sunset provision on the changes to permit reevaluation of them in light of experience.

We thank you for the opportunity to present this statement and we hope that it will be helpful in your deliberations.

**Additional Questions**  
**Hearing -- March 17, 1994**  
from Chairman Gonzalez to  
**David Bryson, Deputy Director**  
**National Housing Law Project**

1) One of the central provisions of the proposed merger of the Section 8 certificate and voucher programs contained in H.R. 3838 is the retention of the certificate program provision limiting a low income tenant's rent to no more than 30 percent of their adjusted income. This provision is retained in H.R. 3838 because of concerns about the rent burdens that might otherwise be faced by low income tenants. However, I am also concerned about the housing choice of low income tenants -- providing low income tenants with an adequate range of decent and safe housing to rent.

-- In order to provide tenants with adequate housing choice, while at the same time protecting against excessive rent burdens, how high would you set the rent to income ratio for low income tenants, and in what manner?

2) The FY 1995 proposed HUD budget would reduce the percentile of local market rents at which Section 8 fair market rents are set. FMRs are currently set at 45 percent of local market rents. What potential impact would such a reduction have on housing choice of low-income tenants assisted under the Section 8 program?

3) The FY 1995 proposed HUD budget provides for a reduction in administrative fees under the Section 8 program. What impact would a reduction in administrative fees have on the administration of the section 8 program?

4) One criticism of the fair market rent system under the Section 8 program is that it inhibits tenant mobility because it is based on a metropolitan area wide basis, and does not reflect variations among submarket areas. Should the fair market rent system be adjusted to better reflect variances in market rents within submarket areas?

5) Do you have any observations on the recently released study by Abt Associates entitled "Final Report on Recommendations on Ways to Make the Section 8 Program More Acceptable in the Private Rental Market" commissioned by the National Multi Housing Council and the National Apartment Association?



Responses from Mr. David B. Bryson to

Chairman Gonzalez' Questions

(3/17/94)

1) One of the central provisions of the proposed merger of the Section 8 certificate and voucher programs contained in H.R. 3838 is the retention of the certificate program provision limiting a low income tenant's rent to no more than 30 percent of their adjusted income. This provision is retained in H.R. 3838 because of concerns about the rent burdens that might otherwise be faced by low income tenants. However, I am also concerned about the housing choice of low income tenants -- providing low income tenants with an adequate range of decent and safe housing for rent.

-- In order to provide tenants with adequate housing choice, while at the same time protecting against excessive rent burdens, how high would you set the rent to income ratio for low income tenants, and in what manner?

Reply:

It is possible to provide tenants with adequate housing choice without requiring them to pay more than 30 percent of their incomes for rent except in very limited situations. To achieve that goal, the program must have the following five basic features:

First, Fair Market Rents (FMRs) must be set at adequate levels, which requires that control of the FMR level must remain in the hands of HUD. The PHAs must not be given the option of setting a payment standard at a lower level, as they were under the voucher program.

Second, statutory standards must be prescribed to ensure that HUD sets the FMR at an adequate level so that most participants will be able to rent homes at or below the FMR.

Third, there can be limited circumstances in which tenants pay more than 30 percent of their incomes for rent, but there must be safeguards to prevent an excessive number of participants from paying more than an affordable share of their incomes for

rent. The best safeguard is to require aggressive recruitment of landlords and assistance to families and an automatic review and readjustment, if necessary, of the FMR when the percentage of tenants paying more than 30% exceeds a certain percentage of the units administered by the PHA. We propose 5 percent. In addition, there should be a limit on the number of participants in the PHA's program who pay more than 30%. We propose 10 percent. There also should be reporting requirements, with public disclosure, that will uncover malfunctions as they arise.

Fourth, the changed system must require the PHA to assist the tenant in negotiating with the landlord, if the landlord wishes to charge more than the FMR. That would help protect against gouging by unscrupulous landlords.

Fifth, there should not be provisions that would authorize a PHA to refuse to approve a lease if the rent were too high a percentage of the tenant's income or were considered by the PHA to be excessive. Such a requirement would only limit the certificate holder's chances of securing housing.

2) The FY 1995 proposed HUD budget would reduce the percentile of local market rents at which Section 8 fair market rents are set. FMRs are currently set at 45 percent of local market rents. What potential impact would such a reduction have on housing choice of low-income tenants assisted under the Section 8 program?

Reply:

Reducing the level at which FMR's are set from the 45th percentile to the 40th would drastically limit the number of units available to certificate holders. By definition, an additional 5% of the units in the market would become off limits for them, and those would be the ones with the highest rents, in the best physical condition in the better served neighborhoods. Looking at it another way, certificate holders have 12% more units to choose from at the 45th percentile than at the 40th percentile.

Even in the current housing markets, when vacancy rates have been higher than usual in many places, one in five families that receive certificates cannot find units within the FMR, when it has been set at the 45th percentile. Reducing that level to the 40th percentile will reduce the success rate even more. And as the rental markets tighten up, as they are doing, even more families would be unable to find units within the FMR.

Reducing the FMR's would create additional problems if the tenants' rents were to be set as they are in the voucher program, which the Administration proposed last Fall, or if an exception to the 30% rent-to-income ratio limit were created, as suggested

above. The only way to ensure that tenants have an adequate subsidy under a full-blown or limited voucher system is to guarantee that the FMR's (and PHA-set payment standards if they are used) are high enough. If they are not, nearly all the tenants would have to pay the extra rent above the FMR out of their own pockets. For tenants with higher incomes that would create a severe financial burden. For tenants with the lowest incomes, that would make the program unworkable. Their rent to income ratios would rise to levels, such as 40 and 50 percent, at which landlords with housing that meets the HSQ's will not rent to them.

3) The FY 1995 proposed HUD budget provides for a reduction in administrative fees under the Section 8 program. What impact would a reduction in administrative fees have on the administration of the section 8 program?

Reply:

Our experience, and the experience revealed by Abt Associates' FINAL REPORT ON RECOMMENDATIONS ON WAYS TO MAKE THE SECTION 8 PROGRAM MORE ACCEPTABLE IN THE PRIVATE RENTAL MARKET is that some housing authorities do not adequately perform a number of functions that are essential to the success of the programs. They include recruiting landlords to participate in the program, educating them about the way the program works, providing tenants assistance in locating landlords who are willing to participate, performing inspections in a timely fashion, training inspectors to produce rational and consistent results, making HAP payments on time and handling landlords' damage claims fairly and expeditiously.

Those functions are essential if the program is to achieve its goal. Adequate administrative fees are one necessary condition to the successful performance of those functions. Well trained PHA staff members are another. Clearly, fees should not be cut in the face of what is already inadequate performance at some PHAs.

4) One criticism of the fair market rent system under the section 8 program is that it inhibits tenant mobility because it is based on a metropolitan area wide basis, and does not reflect variations among submarket areas. Should the fair market rent system be adjusted to better reflect variances in market rents within submarket areas?

Reply:

There is some flexibility in the current FMR system to reach housing with higher rents in better served neighborhoods. Under the current exception rent regulations, PHAs may, with HUD permission, approve rents for units that exceed the FMR by up to

20 percent, if they are located in a neighborhood, municipality, county or similar locality where the rents are higher because of special circumstances and units cannot be rented for less. 24 C.F.R. § 882.106(a)(3)&(4) (1993).

Those regulations have not always been adequate, because they depend upon the PHA's asking for permission to approve the higher rentals and the local HUD office's granting that permission. In addition, in February 1993, HUD proposed to make the exception rent rules even more restrictive than they are now. 58 Fed. Reg. 11,292 (February 24, 1993). One can hope that upon reflection HUD will not narrow the rules in the proposed fashion, but instead will redesign them to better reflect variances in market rents within submarket areas.

5) Do you have any observations on the recently released study by Abt Associates entitled "Final Report on Recommendations on Ways to Make the Section 8 Program More Acceptable in the Private Rental Market" commissioned by the National Multi Housing Council and the National Apartment Association?

Reply:

The stated goal of the Abt/ Multi Housing Council/ National Apartment Association project was make the program more accepted by owners in low-poverty areas without compromising program goals of providing low-income households good quality affordable housing in the private market. Abt, FINAL REPORT ON RECOMMENDATIONS ON WAYS TO MAKE THE SECTION 8 PROGRAM MORE ACCEPTABLE IN THE PRIVATE RENTAL MARKET (March 1994), p. 3. Its recommendations can be summarized as follows:

1. Tenant screening should be the right and responsibility of the owners and that should repeatedly be made very clear to them.
2. Congress should repeal the statute that prohibits landlords who already participate in the Section 8 program from discriminating against applicants with certificates or vouchers.
3. Congress should repeal the statute that requires one year leases and bars landlords from evicting a tenant without good cause.
4. Landlords should be allowed to use their regular leases and any addenda used to meet the requirements of the Section 8 program should be narrowly tailored.
5. Section 8 payments should be made with two-party checks requiring endorsement by both the landlord and the tenant.



6. Housing Quality Standard enforcement should be improved:
  - \* by increased training of inspectors to increase consistency;
  - \* by authorizing conditional approvals and modifying the scoring so that violations that do not threaten health and safety would not lead automatically to rejection; and
  - \* by authorizing building-wide certifications and imposing time limits on inspectors to overcome delays in securing approval for apartments.
7. Abatement of payments for housing quality standard violations during the lease term should be prohibited and inspections should be performed sufficiently in advance of lease anniversary dates to allow landlords to make repairs or drop out of the program.
8. Time limits should be placed on PHAs' making inspections in response to landlord's damage claims submitted when tenants move out.

Final Report, pp. 22-34.

The recommendations provoke a variety of responses. Some of them are quite sound and most likely would be supported by participating tenants as well as the landlords. They include making it clear that tenant screening is the owner's, not the PHA's, responsibility, speeding up the inspection process and reducing the rejection of units for minor violations, and instituting a two-party check system. Others are less necessary, but not likely to evoke strenuous opposition. They are the proposal to allow landlords to use their own leases, with addenda to incorporate the Section 8 requirements, and the time limits for handling inspections related to landlord damage claims.

None of these five non-controversial recommendations would require any statutory changes. At this stage, it would be better if HUD were given a chance to consider the recommendations and decide whether to adopt them administratively, instead of Congress' enacting them today. In fact, the Report suggests that the recommendations be tried by HUD on an experimental basis at first and not be adopted program wide until after an evaluation. Only if HUD were to arbitrarily refuse to consider implementing them, would there be a need for Congress to amend the statute to require such changes.

Three recommendations, however, are quite controversial and would significantly compromise fundamental principles that have



governed the Section 8 program. They are the proposal to repeal the ban against discrimination against certificate and voucher holders, the recommended repeal of the bar against evictions without good cause and the proposed prohibition against abatement of assistance payments for HSQ violations during the term of the lease.

In analyzing the worth of these three recommendations, it is important to keep in mind the nature of the research undertaken and the analysis that was done. First, the study was limited to ways to make the program more acceptable to the landlords. The primary aim was not to make the program more acceptable to the certificate or voucher holders, the PHAs, HUD or the public. Thus the focus groups only contained landlords, not tenants, PHA staff, HUD staff or members of the general public. In lieu of soliciting the views of those other affected parties, Abt Associates took upon itself the responsibility of recommending only changes that would not compromise the program's goals. Final Report, pp. 3-4 & 7-8. That, of course, left open the risk that Abt Associates might either fail to understand fully the basic goals of the program or misjudge whether particular changes would compromise those goals.

#### Discrimination Against Certificate Holders

Some landlords participating in focus groups objected to Section 8(t) (42 U.S.C.A. § 1437f(t) (West Supp. 1993)) which prohibits landlords who have signed one Section 8 contract from refusing to accept another Section 8 assisted tenant because that second applicant participates in the Section 8 program. The claim is that the non-discrimination provision itself makes landlords reluctant to try out the Section 8 program. Final Report, p. 10. If that statute were repealed, which the Report recommends (Final Report, pp. 22-23), allegedly more landlords would accept Section 8 applicants because they would not feel that they would have to accept every Section 8 applicant who comes to them.

To analyze this point it is first necessary to be clear about what the non-discrimination provision actually does. It does not prohibit landlords who accept a Section 8 applicant from screening future Section 8 applicants. It appeared from the Abt focus groups that many landlords did not understand that. Final Report, pp. 10-11 & 12. It also does not require those landlords to rent units to Section 8 applicants if they have a non-Section 8 applicant that they prefer or if they can get more rent from unassisted tenants. 42 U.S.C.A. § 1437f(t) (West Supp. 1993). It merely prohibits the landlords from relying on the fact that the applicants are Section 8 participants as the reason for rejecting them.

Repeal of the provision would mean that Congress would be

authorizing all landlords, even landlords who are taking the benefit of Section 8 in some of their properties, to refuse to rent to applicants who have certificates or vouchers for the very reason that they have such assistance. That certainly runs counter to the principle that certificate and voucher holders ought to be able to participate in the private market just like other unsubsidized tenants. It also offends against the moral principle that people should not be treated arbitrarily, i.e., be discriminated against for reasons beyond their control, namely their inability to afford even a decent home without housing assistance.

To the extent that the non-discrimination provision as presently structured discourages some landlords from accepting any Section 8 applicants, there is a solution that does not require jettisoning these principles of fundamental fairness. The Abt Report notes that in those states and localities where all landlords are prohibited from rejecting an applicant on the basis of the source of their income or their receipt of housing subsidies, this problem of landlords being afraid to accept any Section 8 tenants does not arise. Final Report, p. 23, n. 14. Because they are already barred from discriminating, taking a Section 8 applicant does not subject them to any greater liability or duty. Similarly, if the federal law banning discrimination against applicants who participate in Section 8 were extended to all landlords, the problem of which the Report complains would also disappear. Such an amendment is discussed in my prepared statement at pages 4-5.

#### Allowing Landlords to Evict Without Good Cause

The Report's second controversial recommendation is that landlords be allowed to use short term leases, at least as short as 90 days and possibly month to month, and that they be allowed to evict the tenants at the end of the lease without good cause. Final Report, p. 24. This recommendation would entail repealing the present statutory provisions, and implementing regulations, that require a landlord to have good cause to terminate a Section 8 tenancy. 42 U.S.C.A. § 1437f(d)(1)(B) (West Supp. 1993); 24 C.F.R. § 882.215 (1993). The supporting argument is that the statute makes it harder to get rid of a tenant the landlord considers disruptive and, as a result, good landlords are reluctant to rent to Section 8 applicants. Final Report, p. 24.

The good cause requirement was added to the statute in 1981. It was added to the certificate program for the same reason that it has become a part of all other federal housing programs, namely, to protect families from being arbitrarily evicted from their homes. That protection against losing one's home for no fault of one's own is guaranteed to all the families in the country who own their homes, to all the residents of the cities that prohibit eviction without good cause, to all the renters in the state of New Jersey and to all the families who participate

in the other federal housing programs. There would have to be a very sound reason to take it away from the families who participate in the Section 8 program.

The Abt/Multi Housing Council Report does not present such a case, for a number of reasons. First, the Report's case rests in part on a misunderstanding of the exact nature of the eviction rules. At least four times, the Report mistakenly states that Section 8 landlords cannot evict tenants without securing the approval of the PHA. Final Report, pp. 4, 9, 12, & 20. That is not true. The statutory requirement that the landlords secure the approval of the PHA was repealed in 1981 (Pub. L. No. 97-35, §326(e)(1), 95 Stat. 402, 407 (1981)) and the regulations were changed in 1982. 47 Fed. Reg. 33,497 (August 3, 1982). Thus PHA approval has not been a requirement for nearly 12 years. To the extent that Abt's analysis rests on a mistaken understanding of the eviction rules, it is seriously undermined.

Second, the report repeatedly suggests that Section 8 landlords are not allowed to use the same eviction procedures as ordinary private landlords. Final Report, pp. 5, 11-12, 20, 22, 24, & 25. The suggestion is that ordinary landlords do not have to go to court to evict tenants, and Section 8 landlords do. That suggestion also overstates the case. In almost all states, self-help evictions are prohibited. That means that ordinary landlords have to go to court if a tenant refuses to move after the landlord terminates the lease or the lease expires. Similarly, Section 8 landlords have to go to court if a tenant refuses to move. In addition, some Section 8 tenants will move voluntarily when they receive a notice from their landlord terminating their tenancies, just as some unsubsidized tenants do. Thus for Section 8 landlords there is the possibility that an undesired tenant will move out voluntarily, just as there is with ordinary landlords. Although that probably does not happen as often with Section 8 tenants, it is important not to underestimate that possibility nor to ignore the fact that not all disruptive tenants leave unsubsidized housing voluntarily.

The major difference between Section 8 tenants and other tenants is that if they refuse to move and the landlord goes to court, he will have to prove that the Section 8 tenant has breached the lease or that there is other good cause for the eviction. Except in cases where the tenant has a lease, ordinary landlords can have courts evict tenants merely by proving that they have given the tenant a required notice to move out. They do not have to prove the reason why they gave the notice.

But this difference is not as great as the Report makes out. The Section 8 landlord is still free to evict a tenant who is disruptive, because disrupting other tenants' quiet enjoyment of the premises is good cause for eviction. 24 C.F.R. § 882.215(c)(2) (1993). The landlord is also free to evict a

tenant for any other breaches of the lease, including nonpayment of rent and damaging the premises, with which the Abt landlords were concerned. 24 C.F.R. § 882.215(c)(1) (1993). Section 8 landlords, unlike landlords participating in all the other federal programs, are also free to evict tenants for business or other reasons, such as a desire get more rent, or to sell the property, or to renovate it, or to convert it to nonresidential uses, or to move in family members or to use it as his or her own home. 24 C.F.R. § 882.215(c)(2) (1993). What the Section 8 landlord cannot do is evict the family from its home for no reason at all. Even if that limited restraint on a landlord's prerogatives deters some "good" landlords from participating in the program, it is not worth sacrificing this fundamental protection to get them to participate.

#### Remedies for Housing Quality Standards Violations.

The research uncovered some landlord dissatisfaction with PHA's enforcement of the Housing Quality Standards. Primarily the complaints were that the inspectors were sometimes too picky, were often inconsistent and were slow in conducting follow-up inspections to confirm that repairs had been made. The results, they alleged, were that they lost rent because payments were abated too hastily and resumed too slowly. In addition, in some cases the tenant caused the damage that created the HSQ violation and the PHAs abated the payments even though the landlords were not at fault. Final Report, pp. 14-17 & 18-19.

For the most part, the Report recommends changes in training and scoring to solve the problems, especially the problems of too hasty abatement and too slow resumption. Those recommendations are not controversial. However, there is one additional recommendation that is controversial, namely that PHAs be barred from abating payments during the lease term. Final Report, p. 32-33. That recommendation compromises a fundamental purpose of the program, i.e., that the tenants be assured decent safe and sanitary housing in which to live. When a landlord refuses to correct a violation of the Housing Quality Standards, after having been given notice and a reasonable opportunity to make repairs, the PHAs must have the power to abate payments. Otherwise substandard housing will be subsidized for the remainder of the term or the PHA will have to terminate the contract mid-term, forcing the tenant to seek alternative housing which is difficult to do in tight markets.

Withholding the power to abate payments during the lease term, as the Report recommends, cannot be justified as necessary to correct sloppy or abusive practices of PHAs. The Report itself recommends alternative changes that will effectively solve the problems of delay, pickiness and inconsistency. In addition, the Report does not analyze closely the current HUD Handbook provisions, but instead creates the impression that they require



abatement even if there has not been a reasonable opportunity to repair and prohibit retroactive reinstatement when repairs have been made. In fact, under the Handbook, the landlord (1) can get 30 days to repair violations that do not present an immediate danger to the health and safety of the family, (2) can get an extension depending upon the nature of the work to be completed and what a reasonable deadline would be, (3) must get advance notice before the PHA can stop the HAP payments, and, (4) once the repairs have been completed, can get a prorated payment for the days between the day the corrections are made and the end of the month, even if the inspection is not completed until later. HUD Handbook 7420.7, ¶¶ 5-9 & 5-10 (CHG. 3, 1983). If the discretion granted the PHAs in applying those rules is determined to be unfair to the landlords, the solution is not to take away the abatement option, but to train the PHAs better or to reduce the PHAs discretion.

In analyzing how to solve this problem, it is important to recognize what and whom we are dealing with. If the rules on abatement are tightened up, and the PHA staffs are trained better, abatement will only arise in situations where landlords have been given reasonable time to make repairs and adequate notice of impending abatement and have failed to do so. Once the repairs are made, the payments will be re-instituted, even retroactively to the date of completion. Landlords who are able and willing to provide good quality housing are not going to be subjected to abatement. It is the landlords who want to stretch the limits as far as they can or outright abuse the program who will get caught. For them, PHAs need the power of abatement to ensure compliance with the basic program goal of providing housing that is decent.

Possibly in silent recognition of this analysis, the Report proffers an alternative justification for banning abatement during the term of the lease, namely to solve the problem of abatement when the tenant's actions have caused the condition that violates the HSQ. Final Report, p. 32-33. The Report begins with the complaint that landlords should not lose rent when the tenant has caused the damage. The proposed solution is to ban abatement of HAP payments before the end of the lease and at the end of the lease allow the landlord to terminate the tenancy if the tenant will not pay for the repairs. That way, the landlords will be protected against a loss of rent, because they will be free to evict the tenant at the end of the lease and in the interim they will be guaranteed receipt of the HAP payments.

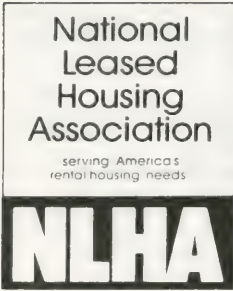
This solution presents a case of throwing out the baby with the bath water. To solve one problem, landlords facing abatement for tenant-caused damages, the scope of which is undetermined, the Report would take away another remedy needed to solve a much greater problem, the failure of a significant number of landlords



to comply with the HSQs. The history of the program has demonstrated such non-compliance to be substantial. Abatement during the term of the lease is needed to increase compliance without forcing the tenants to move elsewhere.

Allowing the landlord to terminate the tenancy at the end of the lease term without good cause will also compound the problem of securing HSQ compliance and minimizing unnecessary displacement of the tenants. In situations where the landlord has caused the violation, the power to evict the tenant and to replace the tenant with another will create enormous leverage for abusive landlords to force tenants to pay for damages they have not caused. It also leaves them free to walk away from the program, instead of having to make repairs to avoid a loss of income.

The current rules provide landlords adequate protections in situations where tenant damages have created the HSQ violation. First, tenant damage is grounds to pursue an eviction (24 C.F.R. § 882.215(c)(2)), so the landlord can avoid a loss of income by evicting the tenant. Second, the tenant has a duty under the lease to reimburse the landlord for the cost of repairing damages caused by the tenant, beyond ordinary wear and tear. Thus, if the landlord makes the repairs to avoid abatement, the landlord has some chance for reimbursement. That chance is increased because nonpayment would be grounds to evict. Third, HUD's Handbook only authorizes the PHA to abate payments in these cases if the landlord does not take appropriate steps to evict the family after it refuses to pay for the damages. HUD Handbook 7420.7, ¶ 5-9(d) (CHG. 3, 1983).



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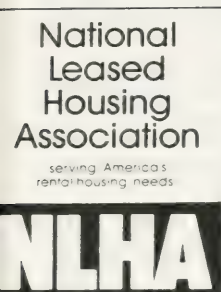
**TESTIMONY OF NEIL CHURCHILL**

**PRESIDENT, NATIONAL LEASED HOUSING ASSOCIATION**

**BEFORE THE HOUSING AND COMMUNITY  
DEVELOPMENT SUBCOMMITTEE**

**HOUSE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS**

**THURSDAY, MARCH 17, 1994**



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**TESTIMONY OF NEIL CHURCHILL**

**PRESIDENT, NATIONAL LEASED HOUSING ASSOCIATION**

**BEFORE THE HOUSING AND COMMUNITY DEVELOPMENT SUBCOMMITTEE  
HOUSE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS**

**Thursday, March 17, 1994**

Good morning, Mr. Chairman and members of the subcommittee. I am Vice President of the National Capital Corporation and President of the National Leased Housing Association, on whose behalf I testify today.

By way of background, the National Leased Housing Association for over twenty years has represented the interests of developers, owners, financiers, public housing authorities, state housing agencies, and others involved in the Section 8 program. Accordingly, NLHA's private members own or manage a large number of the Section 8 new construction/substantial rehabilitation properties in this country while our public members administer the lion's share of Section 8 certificates and vouchers.

Mr. Chairman, NLHA would like to take this opportunity to commend you for introducing H.R. 3838. By doing so, you have sent a clear message to the Administration that "robbing Peter to pay Paul" will not solve this nation's housing problems.

Today, NLHA's testimony will be limited to a general discussion of the proposed merger of the certificate and voucher programs and the expiration of project-based Section 8 Housing Assistance Payment contracts. We will be submitting comments on other provisions of H.R. 3838 in the coming weeks.

**Merger of the Certificate and Voucher Program**

NLHA applauds the efforts of the subcommittee to consolidate the certificate and voucher programs. Over the years, our members

have not always agreed among themselves about what form a merged program should take, but they have always been in full accord that two separate tenant-based programs were unnecessary.

In formulating our position on a merged program, one of the biggest challenges for NLHA's members involves the 30 percent of income for rent limitation. For many years, NLHA held the view that tenants should never pay more than 30 percent of income for rent. Recently, we have modified that position to reflect our concern about families' limited housing opportunities.

In many communities, the fair market rent is simply not reflective of the area's true rents despite this body's efforts to encourage HUD to establish sub-FMR areas, simplify the FMR appeal process, etc. Therefore, families looking for apartments in this environment are forced to either relinquish the rental assistance and stay in substandard or unaffordable housing or are forced to move to a less desirable location.

One solution would be to give PHAs the unlimited discretion to increase the subsidy cap to allow exception rents of 120 or 130 percent of FMR. However, such a move would ultimately mean fewer families will receive subsidy.

Therefore, in order to maximize a family's choice for affordable rental units, NLHA proposes that tenants pay 30 percent of their adjusted monthly income for rents up to 110 percent of the FMR, and in those limited circumstances where tenants choose to rent units over 110 percent of the FMR, that the family would assume responsibility for any amount between 110 percent and 120 percent of the FMR. PHAs would be required to perform rent reasonableness analysis on these rents and could approve no more than 10 percent of its annual subsidy allocation for such rents. In no event would a tenant be permitted to pay more than 45 percent of income for rent.

To increase landlord participation in a merged program, NLHA strongly supports the provision in H.R. 3838 which would require the lease to contain specific terms and conditions including termination dates. We believe that written notices concerning the termination of tenancy should be required for both landlords and tenants and should be consistent with State or local ordinances that govern those requirements.

#### Project-Based Certificates

The Association strongly supports the provision in H.R. 3838 to eliminate the current law limitation that PHAs can only use 15 percent of their rental assistance as project-based subsidy. We would recommend that Congress require HUD to streamline its application review process. Long processing delays have killed a

number of pending projects under this program and made many developers, both for-profit and non-profit wary of participating.

We would also like to state our support for the Pension Fund Demonstration program which was proposed in the Administration's FY95 budget.

#### Administrative Fees

NLHA believes that the current method of calculating the administrative fee each year based on the two bedroom Fair Market Rent is inappropriate and ineffectual as this method fails to take into account the true costs of administration. Furthermore, every ten years, the use of new census data causes unreasonable sharp declines in the fees to reductions or rebenchmarking of the Fair Market Rents. This rebenchmarking has little or no relation to the cost of administration and simply puts PHA programs at risk. We strongly support a comprehensive and detailed study of the costs of administering the Section 8 program today. We believe that such a study is necessary to arrive at a methodology that will help determine what fees are appropriate for PHAs, be they large urban, small rural, or midsize PHAs, as well as taking other pertinent facts into consideration.

#### Portability

NLHA supports the provision in H.R. 3838 which gives PHAs the discretion to implement a twelve-month residency requirement. We do recommend however, that the ten percent exemption requirement be clarified for State or Regional Housing Authorities to ensure that it applies to each separate jurisdictional allocation rather than on the entire State or Regional allocation.

We also support the provision of additional assistance funds to PHAs who have issued a certificate/voucher to families from other jurisdictions.

#### Expiring Section 8 Contracts

As you are well aware Mr. Chairman, the Section 8 housing program is approaching a crossroads which may result in the loss of valuable low-income housing stock.

The first of the Housing Assistance Payment (HAP) contracts (representing nearly 840,000 units) entered into under the New Construction and Substantial Rehabilitation Section 8 programs will expire in 1995. Through the remainder of the decade and into the early part of the next millennium, the remaining contracts will expire.



Accordingly, Congress faces the issue of whether to renew the HAP contracts upon expiration and if so, how such renewals should be structured. Although H.R. 3838 addresses the issue of expiring contracts by authorizing whatever sums may be necessary in FY95 and FY96, it does not include any provisions for structuring the new contracts. To this end, NLHA has formulated a comprehensive proposal which we have attached for the record.

NLHA's position represents the considered view of a broad-section of project owners. Over 70 of our member organizations participated in the effort to formulate a proposal which attempts to preserve the Section 8 housing stock while ensuring rents which will allow the properties to meet their operating needs.

NLHA's position paper is bottomed on three premises:

- 1). That as many Section 8 units as possible should be preserved for low income occupancy;
- 2). That renewal rents should be no higher than comparable market rents, designated as "Street Rents," with adjustments for additional expenses that the owner faces due to the fact that the housing is federally regulated, except in those instances where the budgeted historic costs of the project drive the rents over street rents; and
- 3) That the program should be as administratively simple as possible with a minimum of HUD involvement.

#### Program Mechanism

We have based our proposal on the premise that renewal should be for a five-year term at the owner's option. We firmly believe that this approach will result in the maximum amount of units being preserved for low income use in that HUD would have no right to preclude such further use if the owner so chooses.

While we would prefer a longer renewal term, we chose five-years to mitigate the impact on HUD's budget authority. NLHA's members believe that once an owner determines to renew at all, it has made the decision to maintain the property as low-income for the foreseeable future.

In the event an owner chooses not to renew, we propose the allocation of vouchers/certificates with the caveat that the subsidy cap be increased to permit the residents to remain in their units or rent elsewhere in the immediate market area.

### Establishing Initial Rents

As I stated earlier, NLHA believes that Section 8 rents should not exceed "street" rents with adjustments for the regulated nature of the housing.

Our members have proposed three methodologies for setting the renewal rents 1) status quo; 2) market rate; and 3) budget-based. An owner would have the option to utilize any one of these approaches.

1). Under the status quo method, if the current contract rent is equal to or less than 125 percent of the 50th percentile of the rents paid by recent movers, current rents would be the initial rents under the new contract. The data on rents paid by recent movers is readily available from HUD as the Department uses the 45th percentile of rents paid by recent movers when determining the existing 2-bedroom Fair Market Rents. We chose the 50th percentile to take into account the better quality of Section 8 housing than the average existing rental unit. The 25 percent addition reflects the additional costs of operating a HUD project.

2). If an owner chooses the market rate or "street rent" methodology, it would prepare a survey of comparable rents taking into account differences in amenities. The comparable rents should be adjusted by an additional 20 percent to account for the costs which occur in operating a HUD regulated project. We chose twenty percent because when the initial rents were set under the Section 8 new construction/substantial rehabilitation program, an "initial difference" of 20 percent was included. This differential represented additional costs associated with HUD projects including Davis-Bacon requirements, higher interest rates, increased paperwork, maintenance and accounting costs, etc. Historically, HUD originally added 20 percent to comparable rents in most cases to compensate for those factors. This "initial difference" was recognized in the applicable regulations and HAP contracts.

3) To address the projects which cannot operate at current market rates due to high historic costs experienced by the project, either through high amortization costs or increased operating expenses due to the cost of extraordinary maintenance, security, etc., we would recommend the use of the budget-approach. HUD already has procedures in place to accomplish budget-based rent setting.

Instead of the LIHPRHA-type appraisal approach to determine the amount of the owner's equity and the return thereon, we propose that the owner receive a return budgeted as 10 percent of rental income including utilities. However, in calculating the return, the rental income would not exceed the FMR plus utilities so that the owner would not benefit from rents above the FMRs, no matter how the budget is justified.

Rent Adjustments

NLHA proposes the continued use of the Annual Adjustment Factors to process future rent increases for owners who have chosen the "status quo" and "street rent" methodologies.

For budget-based projects, we recommend that HUD establish an operating adjustment factor (as being put in use under LIHPRHA). This would relieve HUD from the administrative burden of reviewing a project's budget every year. HUD would have the option to cause a budget review every two years if it believes that the OCAF increases are out of line.

We have discussed the proposal with your colleague, Representative Kennedy who has expressed an interest in this concept and we have also presented this proposal to your able committee staff.

Thank you for allowing us the opportunity to present our views. NLHA looks forward to working with this subcommittee on these very important issues. If time permits, I will be happy to answer any questions.

**Additional Questions**  
from Chairman Gonzalez to  
**Mr. Neil Churchill**  
**President, National Leased Housing Association**

1) One of the central provisions of the proposed merger of the Section 8 certificate and voucher programs contained in H.R. 3838 is the retention of the certificate program provision limiting a low income tenant's rent to no more than 30 percent of their adjusted income. This provision is retained in H.R. 3838 because of concerns about the rent burdens that might otherwise be faced by low income tenants. However, I am also concerned about the housing choice of low income tenants -- providing low income tenants with an adequate range of decent and safe housing to rent.

-- In order to provide tenants with adequate housing choice, while at the same time protecting against excessive rent burdens, how high would you set the rent to income ratio for low income tenants, and in what manner?

2) What in your view are the most significant problems facing low income tenants currently in the Section 8 program?

3) The FY 1995 proposed HUD budget would reduce the percentile of local market rents at which Section 8 fair market rents are set. FMRs are currently set at 45 percent of local market rents. What potential impact would such a reduction have on housing choice of low-income tenants assisted under the Section 8 program?

4) The FY 1995 proposed HUD budget provides for a reduction in administrative fees under the Section 8 program. What impact would a reduction in administrative fees have on the administration of the section 8 program?

5) One criticism of the fair market rent system under the Section 8 program is that it inhibits tenant mobility because it is based on a metropolitan area wide basis, and does not reflect variations among submarket areas. Should the fair market rent system be adjusted to better reflect variances in market rents within submarket areas?

(3/17/94)

**Response to Additional Questions  
from Chairman Gonzalez  
Neil Churchill  
President, National Leased Housing Association**

**H.R. 3838****Question**

1). One of the central provisions of the proposed merger of the Section 8 certificate and voucher programs contained in H.R. 3838 is the retention of the certificate program provision limiting a low income tenant's rent to no more than 30 percent of their adjusted income. This provision is retained in H.R. 3838 because of concerns about the rent burdens that might otherwise be faced by low income tenants. However, I am also concerned about the housing choice of low income tenants - - providing low income tenants with an adequate range of decent and safe housing to rent.

- - In order to provide tenants with adequate housing choice, while at the same time protecting against excessive rent burdens, how high would you set the rent to income ratio for low income tenants, and in what manner?

**NLHA Response**

As we outlined in our testimony, NLHA has, for many years, held the view that tenants should never pay more than 30 percent of income for rent. Recently, we have modified that position to reflect our concern about families' limited housing opportunities.

In many communities, the fair market rent is simply not reflective of the area's true rents despite Congressional and industry efforts to encourage HUD to establish sub-FMR areas, simplify the FMR appeal process, etc. Therefore, families looking for apartments in this environment are forced to either relinquish the rental assistance and stay in substandard or unaffordable housing or are forced to move to a less desirable location.

The ideal solution would be to correct the deficiencies in the fair market rent process. Given accurate FMRS, the 30 percent income cap would work for all areas. HUD should be encouraged to move in this direction. However, this will take time and an interim solution should be instituted. One such interim solution would be to give PHAs the unlimited discretion to increase the subsidy cap to allow exception rents of 120 or 130 percent of FMR. However, such a move would ultimately mean fewer families will receive subsidy.

Therefore, as an interim compromise and in order to maximize a family's choice for affordable rental units, NLHA proposes that **tenants pay 30 percent of their adjusted monthly income for rents**



up to 110 percent of the FMR, and in those limited circumstances where tenants choose to rent units over 110 percent of the FMR, that the family would assume responsibility for any amount between 110 percent and 120 percent of the FMR. PHAs would be required to perform rent reasonableness analysis on these rents and could approve no more than 10 percent of its annual subsidy allocation for such rents. In no event would a tenant be permitted to pay more than 45 percent of income for rent.

#### Question

2) What in your view are the most significant problems facing low income tenants currently in the Section 8 program?

#### NLHA Response

2) Inadequate landlord participation is one of the most serious problems facing low-income tenants who are looking to lease a unit with a certificate or voucher. Inadequate rents, excessive restrictions, lack of a lease termination date, etc. are among the reasons that landlords do not jump at the chance to participate in the program. In addition, a major disincentive to landlord participation is the current law which prohibits landlords from refusing to rent units to Section 8 applicants, solely on the basis of their status as a Section 8 recipient, once that landlord has accepted one Section 8 tenant.

For families who are currently receiving assistance, the biggest challenge is overcoming the programs' inherent disincentive to seek and retain employment. The problems that public housing residents face in this regard is not any different for the Section 8 family - disposable income drops when a family trades a welfare check for a paycheck.

A number of thoughtful suggestions were forwarded by GAHRO, NAHRO and others. NLHA supports the concepts they have outlined and would welcome the opportunity to provide further assistance and input as the subcommittee develops a legislative remedy.

In general, many of the problems with the Section 8 program could be resolved if PHAs were allowed the flexibility to address the needs of the locality (i.e. choosing project-based assistance over tenant-based, increasing or decreasing the FMRs, etc.).

#### Question

3) The FY95 proposed HUD budget would reduce the percentile of local market rents at which Section 8 fair market rents are set. FMRs are currently set at 45 percent of local market rents. What potential impact would such a reduction have on housing choice for low-income tenants assisted under the Section 8 program?

NLHA Response

3) As the National Housing Law Project has stated in its testimony, one out of five certificate holders turn their certificates back in because the rents being charged in the market exceed HUD's FMRs. Lowering the FMRs in this fashion will simply exacerbate this problem, particularly in tight rental markets.

In addition, reducing the FMRs will seriously erode any efforts to accomplish "spatial deconcentration." In fact, such a move will result in increased segregation of low-income families.

HUD's proposal to reduce the percentile of local market rents at which Section 8 FMRs are set is nothing more than a politically based attempt to tout budgetary savings for reasons which have no basis in reality. We vigorously oppose such a maneuver.

Question

4) The FY 1995 proposed HUD budget provides for a reduction in administrative fees under the Section 8 program. What impact would a reduction in administrative fees have on the administration of the Section 8 program?

NLHA Response

4) NLHA agrees that the current method of calculating the PHA administrative fee based on the two bedroom FMR is inappropriate and ineffectual as this method fails to take into account the true costs of program administration. We believe that a new methodology should be developed to determine administrative fees, after a comprehensive study is conducted and completed to determine the true costs of administering the Section 8 programs today. Only upon identifying the actual costs incurred by large urban, small rural or midsize PHAs can an accurate methodology be developed.

HUD's insistence that the administrative fees are too high are groundless. Fee reductions simply put PHA programs at risk.

Question

5) One criticism of the fair market rent system under the Section 8 program is that it inhibits tenant mobility because it is based on a metropolitan area wide basis, and does not reflect variations among submarket areas. Should the fair market rent system be adjusted to better reflect variances in market rents within submarket areas?

NLHA Response

5) Accurate FMRs are critical to the success of the Section 8 program. The House-Senate Conference for the Housing and Community Development Act of 1974 stated, in fact, that "The conferees believe that the establishment of realistic fair market rentals will be a prime factor in the success or failure of the new housing assistance program (i.e. Section 8 Existing Housing). One in five certificate holders turning in their certificates because of the inability to find approvable housing does not constitute success.

As mentioned earlier, inaccurate FMRS result in: the exclusion of a major portion of the rental market from the Section 8 program; create or reinforce existing patterns of racial and economic segregation in center cities and effectively limit available housing to deteriorating or obsolescent neighborhoods metropolitan-wide; increase the number of marginal properties involved in the program; and reduce the success of those most difficult to house (e.g., large families) in finding suitable units.

NLHA has long advocated the development of submarket FMRs to address the problem of HUD's inability to formulate FMRs which are reflective of local market conditions. The development of such submarket rents should be accomplished by the use of local rent surveys and the input of the local housing agencies.

Furthermore, the process for appealing FMRs must be changed. If a PHA believes that FMRs are deemed inaccurate there is virtually no cost effective way to challenge the inaccuracies of the numbers proposed by HUD. HUD promotes the use of the Random Digit Dialing (RDD) system to appeal their numbers. However, we believe the RDD system to be flawed. In addition, the costs for a PHA conducting an RDD study are prohibitive as studies range from \$15,000 to \$30,000 and more. While HUD claims that it will accept non-RDD studies, it typically rejects such studies as statistically invalid.

## **Tenant-based Rental Assistance: Making It Work in the Private Market**

**Testimony of Christina L. Garcia**

Vice President - Director of Operations  
Wildwood Management Group  
San Antonio, Texas

and

Chairman, Board of Commissioners  
San Antonio Housing Authority  
San Antonio, Texas

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On behalf of the  
National Multi Housing Council  
and  
National Apartment Association

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Before the  
U.S. House of Representatives  
Subcommittee on Housing and Community Development  
Committee on Banking, Finance and Urban Affairs

March 17, 1994

Mr. Chairman, thank you very much for inviting me to discuss ways to improve Section 8 tenant-based rental assistance so it can provide low-income families with the broadest possible access to well-designed, well-managed, affordable housing.

Mr. Chairman, as a life-long resident of your home town, I want to begin by saying I am very proud of the leadership you have long given to affordable housing for low-income families across our nation. I am enthusiastic about what we could achieve by working together in the months ahead.

My comments today will focus on tenant-based rental assistance. Improvements in that program could be the most important single thing Congress can do this year to improve housing opportunities for large numbers of needy families.

Unfortunately, the voucher-certificate program has serious flaws that sharply reduce participation by owners of competitive, well managed, well-located housing. As a result, Section 8 limits a renter's housing choices generally to poorer neighborhoods and to less desirable housing.

It is not supposed to work that way. But problems are caused by program practices that run counter to how the private housing market really works.



Ironically, the problem is also caused by well-intentioned policies that were originally intended to *help* tenants, but that ultimately end up harming them.

It does not have to work that way. Several thoughtful changes in the tenant-based assistance program could significantly expand the housing choices of Section 8 renters. Those changes should do the following:

- ▶ Make an owner's decision to participate in Section 8 more like a normal business decision, not one that is extremely difficult and costly to reverse;
- ▶ Enable an owner to deal with Section 8 renters on the same basis as other renters;
- ▶ Streamline inspection and other Section 8 requirements so that they fit in as much as possible with normal management activities; and
- ▶ Ensure that participation in Section 8 does not expose the owner to unusual losses and uncertainties in the receipt of revenues.

The changes I recommend would not cost money. They would be in the interest not only of owners of well-managed housing. These changes would also be in the interests of renters, local public housing agencies, and the federal government as well.

## Introduction

**Christina Garcia.** Mr. Chairman, I have over 13 years of experience in the management of multifamily housing. I have worked closely with Section 8 rental assistance both as a private sector housing professional and as a public official.

I have worked with two fee management companies and one real estate development company. I am Vice President of Operations with the Wildwood Management Group, a fee-based property management company specializing in multifamily management. I am responsible for the overall operation of a diversified portfolio of about 2,100 multifamily units located mostly in San Antonio. Our clients include not only individual owners and private insurance companies, but also the RTC and FDIC. Half of this portfolio consists of units occupied by Section 8 renters.

I served as the 1991 President of the San Antonio Apartment Association, which represents owners and managers of more than 86,000 multifamily units in San Antonio. I am a member of the Texas Apartment Association's Board of Directors and also serve as chair of the association's Affordable Housing Task Force.

I currently serve as Chairman on the Board of Commissioners of the San Antonio Housing Authority.

**Organizations Represented.** I am here today on behalf of the National Multi Housing Council and the National Apartment Association, two important organizations that work together for an economic environment and public policies that support quality, accessible and affordable rental housing. Members of these two associations own and manage a large portion of the nation's 24 million rental housing units.

The National Apartment Association (NAA) brings together state and local associations of owners, builders, investors, developers and managers of multifamily properties into the nation's largest multifamily housing association. NAA represents more than 200,000 multifamily professionals who own or manage over 3.5 million apartments nationwide.

The National Multi Housing Council (NMHC) represents the country's larger and most respected multifamily housing firms. They are sophisticated corporations, many of which own and manage many thousands of rental units in a number of states. Member firms are engaged in all aspects of rental housing including the ownership, construction, financing, and management of such properties.

**The need to improve tenant-based rental assistance.**

Mr. Chairman, certain statistics may tend to hide the problems with the current voucher and certificate programs and make it seem like the programs are working well. For example, the "success rates" of voucher and certificate holders has increased in recent years. In the late 1980's, about 73 percent of

those receiving a voucher or certificate were able to lease an eligible unit. In New York City, the figure was only 33 percent. In recent years, the success rates have increased to over 50 percent in New York City and over 85 percent in the rest of the country.

But those figures probably tell more about the recession's impact than about the success of vouchers and certificates. Obviously, it is easier to find available housing when a local rental market collapses and vacancy rates soar. That happened in many local markets when the unprecedented building boom of the mid-1980s was followed by deep recession. Nationally, apartment vacancies remain high as low mortgage interest rates help middle-income renters move to homeownership.

But those conditions won't continue. Local economies are recovering. Employment is picking up. And long pent-up demand for apartments is coming into a market where the supply of apartment units is actually falling. Multifamily housing starts fell from a high of 150,000 units per quarter in the summer of 1985 to below 25,000 units per quarter in 1993. That is below the rate at which apartments are being lost from the stock.

As rental markets tighten, flaws in the voucher/certificate program can no longer be easily masked. Even under favorable conditions, the programs have tended to concentrate low-income families in high poverty areas. They have tended not to open opportunities for better housing in better neighborhoods. If the programs are not improved, the current weaknesses will become more obvious and harmful.

On the basis of current data, HUD can not say with certainty where voucher and certificate holders are living. But rental housing professionals know the problems from direct experience with Section 8 and with the market pressures under which housing providers must operate.

I have talked to many experienced professionals in the industry about this issue. Virtually every one agrees that a private owner can be expected to participate in Section 8 as it now exists *only* if the owner has no economic alternative -- that is, *only* if the owner's property would otherwise be in deep financial trouble. The reason is that some key elements of Section 8 are in direct conflict with sound management practices that are well-established in the private sector.

Some may want to overlook flaws in Section 8. Some may believe that an owner's decision not to participate in Section 8 is just a decision to discriminate against Section 8 recipients. Those notions may lead to proposals to make Section 8 participation mandatory in some way.

I sincerely hope Congress will not fall into that trap. It would make the problems much worse. It would have the opposite effect of what is intended. A legal mandate to participate is more likely, in practice, to generate litigation than to open housing opportunities for people.

Owners, after all, are under intense market pressures. Their asset typically is worth millions of dollars, it is highly leveraged asset, and it is very vulnerable to weak management practices. They will strongly resist a



mandate that they participate in a flawed program that conflicts with sound management.

That reaction is not necessary, since some thoughtful improvements in Section 8 would significantly increase participation by owners of well-managed, high quality housing.

**Response to Los Angeles earthquake.** Recent events in Los Angeles show what can be achieved by removing some of the problems that make Section 8 unacceptable to many owners.

Right after the earthquake, HUD announced that more than 18,000 certificates would be available for people who were left homeless after the disaster. When HUD discovered that apartment owners were refusing to accept the certificates, an initial reaction was to think the problem was just "old fashioned discrimination."

But when Secretary Cisneros called a meeting of local owners, hundreds more owners showed up than were expected. Many owners pointed out practical problems they had with Section 8. Some misunderstandings were cleared up, but some very real problems with the voucher and certificate program were also identified.

The Secretary listened and responded by making some important changes with respect to the earthquake certificates. Owners now are able to terminate the tenancy of disruptive Section 8 renters in the same way they

can for other tenants. Owners can agree to take a certain number of Section 8 renters without therefore being forced to take more. Leases can be on a short-term basis as is the case with other renters, so the owners would not be locked into an endless contract.

On the basis of our conversations with people in Los Angeles, it is clear that owners quickly responded to those program changes with a dramatic increase in their willingness to accept the special earthquake certificates. About 800 new owners quickly agreed to accept certificates under the new conditions. I understand that HUD's most recent data indicate that more than 10,900 renters have already requested lease approval, and more than 5,700 families are now in housing. Some observers believe that these numbers would be much higher, except that many certificate holders are still doubling up with family and friends on an emergency basis.

We can expect a similar change in owner response to the whole tenant-based assistance program if similar reforms are made in the Section 8 statute and regulations.

#### **Abt Associates study.**

The National Apartment Association and the National Multi Housing Council are convinced that problems with Section 8 can be corrected in ways that advance the public purpose of the program and are compatible with the legitimate interests of Section 8 recipients.

To get the most useful suggestions on the table, we asked the nationally-recognized research firm Abt Associates to prepare a report with their recommendations for making Section 8 more acceptable to property owners without sacrificing the program's public purposes. Abt Associates has been a leader in rental assistance research for many years. The principal investigator for the research was Dr. Meryl Finkel, who has been the project director or principal analyst on a series of research projects on the Section 8 program which Abt has conducted for the Department of Housing and Urban Development.

The study gathered information from four "focus groups" that included experienced owners and managers. Two sessions were held in Washington and two in Dallas. Abt Associates also drew upon other research that takes account of observations by residents and public housing authorities.

The Abt Associates report<sup>1</sup> has just been completed. Their analysis and recommendations should be very useful as Congress considers revisions to Section 8 tenant-based rental assistance. I ask that a copy of the report be included in the record at the conclusion of my remarks.

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<sup>1</sup> "Final Report on Recommendations on Ways to Make the Section 8 Program More Acceptable in the Private Rental Market," Abt Associates, Cambridge, MA, March 1994.

## **Private market resistance to participation in Section 8**

As an experienced multifamily housing professional, I am keenly aware that the program's purpose can only be achieved if vouchers or certificates are made acceptable to owners and managers in the private market as elements of normal business practice.

That becomes especially important if Section 8 is to help low-income families to afford decent housing outside of neighborhoods with high concentrations of poverty. Congress and the Administration will have to take seriously the need to remove barriers to participation by owners of good housing in good neighborhoods.

## **Needed changes in legislation.**

Not all improvements to tenant-based assistance require legislation. But I believe several key legislative changes are *necessary* to provide a workable statutory framework for the program. The amendments should be included when Congress considers a merger of the certificate and voucher programs.

The changes in legislation that I recommend would meet three tests. They would bring **tenant-based assistance** in line with normal operations of well-managed **rental housing** in the private market. They would permit an owner to deal with Section 8 tenants like any other tenants, with the same rights and responsibilities on both sides. And they would not compromise other Section 8 program goals.

In addition to these legislative reforms to Section 8 tenant-based assistance, careful **regulatory refinements** and operational improvements should also be made. I am sure that these improvements can be achieved through cooperation among HUD, public housing agencies, private sector professionals, and tenant groups.

I believe seven specific changes in the statute are needed.

### **1. Eliminate 90-day notice to HUD.**

Under current law, an owner must to provide HUD and the tenant with written notice at least one year prior to terminating a Section 8 project-based contract (or 90 days prior to terminating a tenant-based contract). HUD is required to take a number of actions after receiving such a notice. This requirement makes sense for project-based assistance, but not for tenant-based assistance.

Two key conditions apply to project-based assistance. First, under project-based assistance the owner agrees in advance to administer a property under non-market conditions in exchange for subsidies needed to make the property economically viable. Second, termination of tenancy involves termination of the tenant's rental assistance. Neither circumstance applies to tenant-based assistance in property that is already economically viable.



Congress should repeal the HUD notice requirement in Section 8(c)(9) with respect to a Section 8 tenant-based contract. I understand the Administration reportedly supports this change.

This amendment would free HUD from an administrative burden it is ill-equipped to handle. HUD should not be expected to intervene separately in private market relationships among numerous owners, tenants, and public housing agencies. Those relationships are already too cumbersome under Section 8. In practice, HUD has generally not implemented this provision with respect to tenant-based rental assistance.

The amendment would also improve owner participation in Section 8 by making the decision to participate less difficult to reverse and therefore less risky.

## **2. Conform to generally accepted leasing practices.**

Congress should amend Section 8(d)(1) with the following provisions.

The amendment should permit a PHA to approve an initial Section 8 lease for a term of less than one year, if the PHA determines that the shorter lease term will improve the tenant's housing opportunities. An initial trial period would be helpful especially to Section 8 applicants who can't otherwise show that they can establish a good rental history.

The amendment should clarify that an owner can use a standard lease with the same terms and conditions that apply generally to other tenants. The Secretary should, of course, be able to require an addendum that includes provisions required by the Section 8 statute. This change in law would recognize that professionally managed housing requires procedural consistency when dealing with all tenants of a property.

The amendment should clarify that court action would only be required if tenancy is terminated during the term of the lease. "Good cause" would be determined on the same basis as would apply to any non-Section 8 tenant in the property.

This amendment should specify that any activity that threatens another tenant's health, safety, or right to peaceful enjoyment of the property would be considered "good cause" for terminating a tenancy. Most owners will strongly resist participation in a program that allows them to protect other tenants from intolerable activity only if the activity is of a criminal nature.

The amendment should clarify that a Section 8 tenant would have access to remedies under state and local law, on the same basis as any other tenant.

These changes would correct a major problem with the current Section 8 regulations (24 CFR 882.215), which state that the lease of a voucher/certificate renter shall continue until termination of the tenancy in one of several specified ways. HUD rules prevent an owner from terminating

a Section 8 voucher/certificate tenancy unless the owner institutes court action.

The "endless lease" requirement is alien to normal market practice. The requirement makes it much more difficult and costly for an owner to correct a mistake in selecting a Section 8 applicant than is the case with other applicants.

Owners of professionally managed apartments in the private market normally use a standard lease for all units within a property. Lease terms are carefully crafted to reflect the law and sound business practices in the locality. Leases are for a specified period of time, typically six months to one year, and renewable by mutual agreement between the owner and tenant.

This generally accepted practice provides both tenants and owners with well-established rights and responsibilities.

It assures a tenant of housing on acceptable terms for an agreed-upon period of time. Tenant's rights and responsibilities are well-defined for each locality in State and local law.

It enables an owner to fulfill two vital responsibilities: ensuring the economic viability of the housing and protecting the rights of other tenants to a safe and desirable living environment.

Responsible owners *must* defend their ability to deal quickly with behavior that interferes with the rights of other tenants, otherwise grave damage can be done to the marketability of the housing asset. Although different state and local laws apply, owners usually deal with chronically unacceptable behavior by not renewing a tenant's lease when it expires. Eviction procedures are usually reserved for extreme cases because they are costly and disruptive.

The "endless lease" problem was not explicitly created in statute. Current regulations reflect a Reagan Administration appointee's opinion that the statutory language implies that a "termination for cause" requirement survives after expiration of the lease. That interpretation reportedly was not unanimously shared within the Department at the time.

Congress should correct that problem.

### **3. Streamline inspection for housing quality.**

Congress should amend Section 8(o)(7) to allow Section 8 applicants to move in and occupy a unit in good housing generally on the same basis as other applicants.

A reasonable amendment would permit a public housing agency to streamline its inspection with respect to properties that maintain a consistent record of high quality. The agency should have the ability to inspect a property as a whole once every year, for example, by using appropriate random sampling

methods approved by the Secretary. On the basis of that inspection, the agency could certify that there is adequate assurance the units will meet or exceed HUD's housing quality standards during the ensuing 12 month period. Section 8 applicants would then be able to move into a certified property, as would any other applicant, without waiting for an individual unit to be inspected. Annual reinspections would be conducted for each unit occupied by a Section 8 tenant. The agency could reinstate unit-by-unit inspection at any time.

The amendment should permit the inspection to be done by another agency of state or local government according to standards that meet or exceed the requirements of this section. A growing number of localities require regular inspections of rental housing. The Section 8 inspections are viewed as a redundant administrative burden by owners of well-managed housing.

The amendment should require a public housing agency to specify in writing the reasons for failing a unit and any reinspection should focus on making sure the specified problem is corrected. Owners should not be exposed to continuing delays that can occur under current practice, when a reinspection is done by a different inspector who applies different standards and identifies different problems.

The amendment should permit a public housing agency to approve a unit conditionally if any required correction is only minor, the owner gives adequate assurance that the correction will be made promptly, and the agency determines that conditional approval would improve the tenant's



housing opportunities. That would permit timely occupancy when it is in the tenant's interest.

#### **4. Repeal the "take one, take all" provision**

Under Section 8(t) of current law it is unlawful for an owner who accepts one Section 8 tenant to refuse to lease any of the owner's other qualifying units to Section 8 applicants, on the basis of their status as a Section 8 recipient. Therefore, acceptance of the first Section 8 applicant significantly alters the owner's liability and exposure to litigation related to tenant screening and selection. This provision, which was intended to expand housing opportunities for Section 8 applicants, has had the opposite effect of dissuading many owners from accepting *any* Section 8 applicants.

Congress should repeal Section 8(t), significantly improving the atmosphere in which owners could consider participation in the program. I understand the Administration supports this repeal.

#### **5. Make inspection and other procedures more workable**

Many barriers to owner participation in Section 8 stem from improper and inconsistent program implementation from one locality to another. From my own experience in public housing administration, I know that some of those problems result from an understandable response by public housing agencies to the fact that they can be criticized severely by administrative auditors for

procedural infractions, but receive little recognition for actions that make the program work in the market.

Congress should add a new subsection to the statute that directing the Secretary of HUD to establish procedural guidelines and performance standards to help make the implementation of property inspections and other Section 8 activities more in keeping with the efficient operation of the private housing market. Such guidelines and standards should be flexible and recognize differences among local laws and public housing agencies. The standards should give public housing agencies clear incentives to improve program acceptance and workability in the market.

## **6. Timely payment**

Many owners participating in the Section 8 tenant-based assistance program find that some public housing agencies are chronically late in making payments and that some agencies arbitrarily abate rent or other payments for reasons that are out of the owner's control. Where that occurs, Section 8 participation directly conflicts with basic economic factors that drive private rental housing management.

Congress should make it clear it is federal policy to make timely payment of amounts due an owner. Any late payment penalties should be paid in accordance with generally accepted practices that apply to non-Section 8 tenants.

Moreover, payments to an owner should not be abated as the result of damage or other conditions caused by the tenant, or because of delays by the public housing agency.

## **7. Alternative payment methods**

Congress should make sure the Secretary has full authority to implement payment methods that will foster efficient program administration and improve the housing opportunities of Section 8 tenants.

Amounts due an owner under the Section 8 tenant-based program now come through two separate payments: one from the tenant and one from the public housing agency. This adds uncertainty and legal complexity to revenue receipts related to a Section 8 tenant. More efficient payment procedures have been suggested.

The Abt Associates report, for instance, notes it might be beneficial to have payment made through a two-party check that would have to be signed by the tenant and the owner. That could place more influence in the hands of the tenant and reduce the public housing agency's involvement in the tenant/owner relationship. It could make owner interactions with Section 8 tenants more similar to those with other tenants.

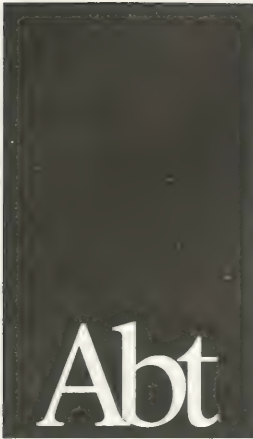
Specific changes in payment practices should not be enacted in law, but the Secretary should have the flexibility to explore ways to do things better.

## Conclusion

Mr. Chairman, as you continue your fight for better housing, I know you have an even more difficult task this year than ever before.

I believe the program reforms I am recommending are made especially useful in light of the budgetary and other constraints on federal housing policy. These changes would provide better housing not by spending more money, but by working with housing market forces rather than against them. These changes would help government and the private sector join forces in the public interest.

Thank you for inviting me to be here this morning. I look forward to working with you and the Committee to achieve a tenant-based assistance program that opens more opportunities for low-income families.



**FINAL REPORT ON RECOMMENDATIONS ON WAYS TO MAKE  
THE SECTION 8 PROGRAM MORE ACCEPTABLE  
IN THE PRIVATE RENTAL MARKET**

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## CHAPTER 1

### INTRODUCTION<sup>1</sup>

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#### 1.1 Report Framework and Background

This report on potential improvements to the Section 8 program should be viewed in light of several recent trends in the housing market in general and in the U.S. Department of Housing and Urban Development (HUD) in particular:

- There is some evidence that housing markets in some areas around the country are beginning to tighten, which may lead to reduced owner acceptance of Section 8 unless actions are taken to address owner concerns.
- Housing assistance needs have been growing at a faster rate than assistance budgets, meaning that all recommendations must take budget constraints into account.
- There is a strong push in HUD to create new opportunities for people living in very poor areas to move to higher income areas, promoting greater economic integration. One such initiative, the HUD Moving to Opportunity program, relies on Section 8 Vouchers and Certificates as the tool through which low-income households will move to higher income areas.
- HUD is trying to move away from being process-driven to becoming more outcome-oriented.

The Section 8 Existing Housing programs were designed for the purpose "of aiding low-income families in obtaining a decent place to live and of promoting economically mixed housing."<sup>2</sup> The programs have been successful. There are currently over one million households receiving assistance through Section 8 Rental Voucher and Certificate programs administered by public housing agencies (PHAs) throughout the country. Recent reports indicate that the quality of housing provided in the Section 8 programs is generally good, and rent

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1. The author would like to acknowledge the valuable input of several groups and individuals. The property owners and managers who participated in the focus groups, gave generously of their time to provide their perspectives on the Section 8 program. Stephen D. Kennedy of Abt contributed extensively to all stages of the research and analysis. James E. Wallace, Judith D. Feins and William (Chris) Hamilton, all of Abt Associates, provided valuable comments on early drafts. Finally, the persistence and attention of W. Donald Campbell of the National Multi Housing Council/National Apartment Association made this project happen.

2. See the authorization for assistance payments in 42 U.S.C. Sec. 1437f(a).

burdens are in the vicinity of 30 percent of income.<sup>3</sup> Early evaluations of the Section 8 programs also confirmed that the Section 8 rental programs were able to provide comparable units at substantially lower cost than new construction programs.<sup>4</sup>

At the same time, there have been concerns that Section 8 units may be concentrated in certain geographic and economic submarkets. Recent initiatives, such as the Moving to Opportunity demonstration, refocus attention on the role of Section 8 in promoting economically mixed housing and assisting low-income residents to rent housing in higher income neighborhoods.<sup>5</sup> However, some owners of good quality units in such neighborhoods are reluctant to rent their units under Section 8.<sup>6</sup> It appears that many owners feel that participation in Section 8 is more time-consuming and costly than renting their units in the private rental market, so that owners who have alternative rental options may often prefer to rent in the conventional market and not to rent their units under Section 8. *If the Section 8 program is to achieve its goal in*

3. See *Characteristics of HUD-Assisted Renters and Their Units in 1989*, U.S. Department of Housing and Urban Development, Office of Policy Development and Research, March 1992. Also S. Kennedy and M. Leger, *Final Comprehensive Report of the Freestanding Housing Voucher Demonstration*, U.S. Department of Housing and Urban Development, May 1990.

4. See Wallace James et al., *Participation and Benefits in the Urban Section 8 Program: New Construction and Existing Housing*, Abt Associates, Inc. Cambridge MA, 1981; Mayo, S.K., Mansfield S., Warner D., and Zwitschenbom R.: *Housing Allowances Programs—A Comparison Based on the Housing Allowance Demand Experiment, Part 1: Participation, Housing Consumption, Location and Satisfaction. Part 2: Costs and Efficiency*, Abt Associates Inc, Cambridge MA, 1980; Schnare A.B. Moss W.B., Pedone C.I., Heintz K.G., and Wiley B.P., *The Costs of HUD Multifamily Housing Programs: An Analysis of Development, Financing, and Subsidy Expenditures*, Urban Systems Research and Engineering, Cambridge MA, 1982; Sumka H.J. and Stegman M.A., "An Economic Analysis of Public Housing in Small Cities," *Journal of Regional Science* 18(3), 1978, pp. 395-410.

5. This goal is explicitly stated in the Section 8 program regulations at 24 CFR 882.103 (c): "PHAs are encouraged to promote greater choice of housing opportunities by: (1) Seeking participation of owners in any areas in which the PHA has determined that it is not legally barred from entering into Contracts...." The authorizing legislation for Moving To Opportunity, in 42 U.S.C. Sec. 1437f states that the demonstration goal is to help participants "...to move out of areas with high concentrations of persons living in poverty to areas with low concentrations of such persons..."

6. Owner interest in the Gautreaux program among suburban owners was reportedly quite low. See Leonard S. Rubinowitz, "Metropolitan Public Housing Desegregation Remedies: Chicago's Privatization Program" *Northern Illinois University Law Review* 12(3), Summer 1992, p. 655. Focus group discussions with unsuccessful searchers which were conducted by Abt Associates as part of the reconnaissance for the Section 8 Utilization study revealed that unsuccessful enrollees were more likely to search for housing in low-poverty areas. These searchers often reported encountering owners who were unfamiliar with Section 8 and who refused to participate. See DeMarco et al., *Reconnaissance Report for a Study of Section 8 Rental Voucher and Certificate Utilization*, Abt Associates, Cambridge MA, November 1991.

*promoting economically mixed housing, several changes should be made to program and the way it is implemented. The objective should be to make the program more accepted by owners in low-poverty areas but without compromising program goals of providing low-income households good quality affordable housing in the private market. We feel that the key to making the program more attractive to these owners is to make Section 8 operate as much like the unassisted market as possible.*

The National Multi Housing Council and National Apartment Association contracted with Abt Associates to conduct this study of potential areas of improvement in the Section 8 program. These organizations represent primarily large property owners and managers, who together own and manage a substantial portion of the nation's multifamily rental housing stock. Many members of these organizations have been reluctant to participate in Section 8, because they feel that the program imposes undue time and cost burdens. Recently members have become concerned that nonparticipation has been wrongly construed as discrimination in some instances. They, therefore, have a heightened interest in making the Section 8 program more compatible with normal private market operations.

Abt Associates is a social policy research firm based in Cambridge, Massachusetts. Our interest in this research stems from the company's long history of involvement in the implementation and evaluation of housing allowance programs for HUD. This experience includes but is not limited to:

- Conducting and analyzing two of the three initial experiments to test housing allowances (the Demand Experiment and the Administrative Agency Experiment). The results, in part, led to the actual adoption of the Section 8 program;
- An early, national evaluation of the Section 8 program;
- Implementation and evaluation of the Housing Voucher Demonstration;
- A study, currently under way for HUD, of enrollee success in utilizing Section 8 Vouchers and Certificates; and
- Also currently under way for HUD, a study to assist in the design, implementation, and early assessment of the Moving to Opportunity demonstration.

The purpose of this report is to make recommendations on ways in which the Section 8 program can be made more attractive to property owners in the private rental market, while not compromising program goals of providing good quality, affordable housing to low-income

families in the private market. *The recommendations in this report reflect the opinions of Abt Associates based on past and current research, and do not necessarily reflect the opinions of the National Multi Housing Council or the National Apartment Association.*

Our discussions of areas of concern and recommendations for the Section 8 program are organized along the continuum of activities associated with administration of Section 8: tenant selection, issues relating to new leases, payments and Public Housing Agency (PHA) relations, and lease renewals. Section 1.2 summarizes our recommendations in each activity area followed by a description of the study's research methodology in Section 1.3. Chapter 2 provides an in-depth discussion of the issues raised by owners relating to each of the program activity areas. Chapter 3 describes Abt's recommendations in detail.

## **1.2 Summary of Recommendations**

The main difference between a Section 8 lease agreement and an unassisted rental agreement is the fact that in Section 8 there is a three-way relationship among the owner, the renter, and the housing agency, in which each of the parties affects or is affected by the relationship between the other two parties. For example, the initial inspection is an interaction between the owner and the housing agency whereby the housing agency makes certain that it is only paying for good quality housing. However, until the unit passes the inspection, the Section 8 Voucher or Certificate holder cannot receive assistance for the unit. Similarly, if the unit fails the annual reinspection, even if the failure is due to resident-caused damage, rent payments by the PHA to the owner are abated. Termination of a lease, which is an agreement between the owner and the renter, must be approved by the PHA. This three-way relationship makes every interaction more time-consuming and costly compared with an unassisted resident. Many owners of good quality properties who have alternative rental options prefer not to incur these additional burdens and, therefore, choose not to participate in Section 8.

In the early experiments to test rental assistance programs this three-way relationship did not occur. Households received subsidies directly and were responsible for all relations with the owner. The three-way relationship may have originated from later attempts to protect owners (to assure them of receiving at least partial payment every month), residents (to assure them that their rights would be protected), or government interests (to assure that government subsidies were being spent only on good quality housing). However, these attempts to protect

each of the parties may have had the opposite effect in some ways. Instead of increasing owner participation by guaranteeing a portion of the rent, the program's restrictions may discourage owner participation. Similarly, the attempts to protect residents may in fact limit the choice of units available. Finally, some of the methods used to protect the public interest may in fact add unnecessary administrative costs for the system as a whole.

Our recommendations center on the idea that the Section 8 program should operate as much like the regular market as possible while recognizing that in some areas it is impossible, and probably unwise, to remove all government involvement. Our recommended approach would increase the accountability and responsibility of each of the parties involved—the housing authorities that administer the program, the owners who rent units under the program, and the residents who live in Section 8 units—but still maintain program goals of providing affordable, good quality housing to low-income families. The goal in each recommendation is to focus on the two parties essential to the relationship. Rather than addressing concerns through added involvement of housing authorities or increased regulations aimed at specific areas, we propose reducing the involvement of the third party to the extent possible.

#### **Resident Selection Recommendations**

- Outreach to owners should reiterate that tenant selection and screening are the responsibility of property owners and managers.
- The program should be changed to allow owners to terminate Section 8 tenancy in the same way unassisted leases are terminated. This would include having the right to limit the initial lease term, to decide whether or not to renew a lease, and to undertake evictions based on local law.
- The program should be changed to allow owners to change their mind about accepting Section 8, whether in a given property or overall.

#### **Lease Recommendations**

- The owner-resident lease should define the rights, responsibilities, and appropriate remedies of the two parties, without PHA involvement in the owner-resident relationship. The HUD Secretary could still maintain the right to require inclusion of certain terms in the lease, but housing agencies should have no further role in owner-resident relations.



**Inspections/Quality Standards Recommendations**

- Steps should be taken to make the implementation of Section 8 Housing Quality Standards (HQS) more flexible and reflective of the goal of providing good quality housing, rather than housing that includes a specific set of features.
- The program should change to allow certification of a property instead of each individual unit, should be considered. This could substantially reduce vacancy times between rentals.
- An outcome scoring policy, with a possibility for "conditional approval" of a unit that requires only minor repairs should be considered. This approach would decrease vacancy times and allow more flexibility in approving units, without compromising quality, because all units would still need to be brought up to standard and reinspected.
- Steps should be taken to improve the consistency and timeliness of inspections.

**Payments Recommendations**

- Public housing agencies should be required to make payments on time, and be subject to standard market penalties if they are late.
- Security deposits could remain at their below market level, but the process for collecting for damages should be improved so that it does not interfere with normal market operations.
- Rent payments to owners should not be abated during the lease term, except at the discretion of the resident, based on whatever normal rent-withholding procedures are allowed by the local jurisdiction.
- Consideration should be given to changing the payment mechanism so as to end the current three-party system. This could be done by shifting to a two-party check that would have to be endorsed by both the renter and the owner. In this way, responsibility for payment could be fully vested in the renter, while assuring that the Section 8 payment was, in fact, used to pay the owner for rent.

**Lease Renewal Recommendations**

- The program should be changed to give both parties to the lease agreement (the owner and the resident) the right to renew or terminate the lease at the end of its term, with appropriate notice, as well as the right to set lease terms.
- Annual inspections should be scheduled so that there is enough time for an owner to make required repairs and have the unit reinspected prior to any lease renewal

date. Deficiencies found should not occasion rent abatement during the original lease term.

The series of recommendations presented above are aimed at making the Section 8 program more attractive to owners of good-quality properties in the private rental market. The way this should be accomplished is by making the Section 8 process as similar to regular market operations as possible. We recommend that implementation of these recommendations should be done through demonstration programs prior to full implementation in order to examine the effects of these changes on the parties involved. This can most effectively be done by requiring HUD to implement the changes initially in a probability sample of PHAs and to evaluate the effects of the changes by comparison with program and recipient outcomes in a probability sample of PHAs operating under current procedures.<sup>7</sup>

### **1.3 Research Methodology**

This report relies on a range of data sources, including information collected and assembled by Abt Associates and others for previous research efforts, and new information collected specifically for this study.

For this project, a series of four focus group discussions were conducted during the first week of December 1993 in two locations: Alexandria, Virginia and Dallas, Texas. Each of the groups was composed of four to five rental property owners and/or managers with experience participating in the Section 8 program. In addition, one group in Dallas also included three nonparticipating owners. The focus groups were led by a professional focus group moderator from Abt Associates, who also led some of the earlier focus groups that were conducted for Abt's study of enrollee success in utilizing of Section 8 Vouchers and Certificates. Participants for the groups were recruited by the focus group facilities from lists of member organizations that were provided by the National Multi Housing Council and the Texas Apartment Association. Specific participants were selected based on knowledge of and experience with the Section 8 program.

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7. We understand that the emergency certificates issued in Los Angeles as a result of the earthquake include several features designed to remove the riskiness of accepting a Section 8 renter. In particular, owners can offer month-to-month leases, the proportion of units in a property leased under Section 8 can be limited, and eviction procedures are those set by state law. Follow-up on landlord acceptance of these certificates might be useful.

Focus groups have long played a central role in private business research, and have more recently come to be used in public policy research as well. These discussions with small groups of individuals provide the opportunity for in-depth discussion and probing, so that a full understanding of issues and concerns can be obtained. Focus group research is an ideal tool for understanding owner concerns regarding Section 8. Because the range of concerns is broad and the issues are often complex and interlinked, a group discussion helps owners clarify and pinpoint the key issues. The concerns raised by the focus group participants, including those who participate in Section 8 and those who do not, were fairly consistent and were similar to the concerns expressed in earlier focus groups with participating Section 8 owners (including both large and small owners and managers) that Abt Associates conducted for HUD. Thus, we feel that the groups served their purpose of helping us understand the full range of owner concerns.

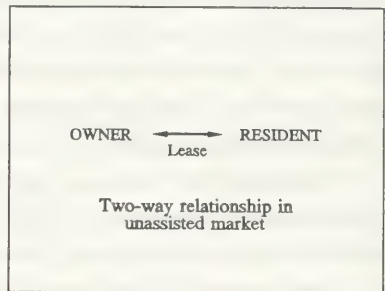
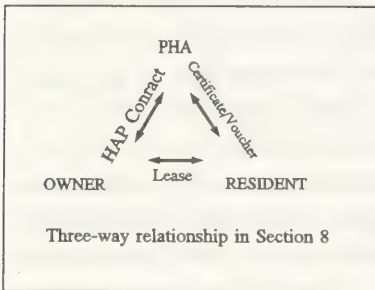
The informal conversations among the participants in each group consisted of a discussion of three specific areas of potential concern: tenant selection and screening, rent levels and compensation issues, and relations with the local PHAs. In each of these topic areas we explored owners' experience with unassisted rentals and with Section 8 rentals (or perceptions regarding Section 8 for nonparticipating owners). Owners were asked about their concerns about the program and their recommendations for changes and improvements.

The purpose of the focus groups was to help us identify the primary areas of concern to property owners from among the large array of potential concerns and to hear a range of opinions from a variety of perspectives. Actual recommendations on ways to address owner concerns were developed by Abt Associates based on our experience with all aspects of the Section 8 program.

## CHAPTER 2

## OWNER CONCERNS REGARDING PARTICIPATION IN SECTION 8

The main difference between renting a unit in the Section 8 program and renting in the private market is the fact that participation in Section 8 requires a three-way relationship between the PHA, the owner, and the resident, rather than the usual two-way resident/owner relationship in the private market. The resident and the PHA are related through the certificate or voucher; the owner signs both a lease with the resident and a Housing Assistance Payment (HAP) contract with the public housing agency. In each of the two-way relationships defined, the third party either affects or is affected by the other two. The three-way relationship makes every transaction more burdensome to owners, in terms of both time required and money. For example, leasing a unit requires approval both by the resident and the public housing agency; getting paid involves two separate payment streams; and ending a lease, which is an owner-renter agreement, requires third-party notification and approval by the PHA.



From an owner's perspective, this three-way relationship adds uncompensated monetary and time burdens in comparison with renting to an unassisted household. This puts the Section 8 Certificate or Voucher holder at a disadvantage in seeking housing. What we heard from owners was that Section 8 renters were not necessarily worse residents than other renters, but that the three-way relationship made dealing with any problems more difficult, because each event required two separate interactions instead of the usual owner/resident interaction.

This chapter describes owner concerns with each aspect of program participation. Recommendations on ways to address these concerns are presented in Chapter 3 below.

## **2.1 Applicant Screening**

Owners typically have three concerns regarding residents in their properties: that they pay their rent on time, that they maintain the unit and the property, and that they behave in a way that does not disturb other residents. In the unassisted rental market, property owners reduce the riskiness of tenant selection two ways. First, they screen applicants, with the goal of weeding out applicants who are likely to be delinquent with payments, cause damage, or be disruptive. This is accomplished through credit screening, employment and income history verifications, personal interviews, and reference checks with previous landlords. Second, owners have the ability to remove problem residents by not renewing their lease, or in extreme cases, through eviction.

Both methods of reducing risk are less available in Section 8 than in the unassisted market. Tenant screening is more difficult because less information is available about Section 8 applicants. The ability to remove a problem resident is also more difficult, whether at the end of a lease or through eviction.

An additional concern is that under current law, once an owner accepts one Section 8 resident in any property, no other Section 8 applicants can be turned down either in that property or in any other property merely because they have a Section 8 Voucher or Certificate.<sup>8</sup> The legislation was enacted in order to reduce the ability of owners to segregate Section 8 renters from other renters by restricting Section 8 to specific properties. However, it appears to have the unintended result of reducing an owner's willingness to try the program. Under the rule, an owner cannot "try out" Section 8, because taking the first Section 8 renter dramatically changes as owner's legal exposure when considering all other Section 8 applicants. Owners therefore feel that they lose control over the screening process. This restriction greatly increases the riskiness of accepting a Section 8 resident for the first time, because an owner cannot change his or her mind after accepting even one Section 8 resident.

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8. 42 U.S.C. Sec. 1437f(t)(1) states that "No owner who has entered into a contract for housing assistance payments under this section on behalf of any tenant in a multifamily project shall refuse to lease any available dwelling unit in any multi-family housing project.... to a holder of a Certificate...." In some PHAs this restriction has been incorporated into PHA practices, while in others it is not yet.



This is the key point, it is on the books, that if you take a Section 8 resident then you have got to continue to take Section 8 residents.<sup>9</sup>

### **Applicant Screening**

Owners pointed out that Section 8 applicants often look riskier than other applicants, because there is less favorable information available about Section 8 residents. Many have no employment history and either have no credit history or a bad credit history—both of which are key factors used in the tenant selection process. This situation makes taking a Section 8 resident more risky than taking a market rate resident, about whom employment, credit, and rental history are more readily available. Although the Section 8 program guarantee of at least partial payment reduces the risk of nonpayment of rent, the risk of renting to a disruptive tenant is still higher.

Many Section 8 applicants don't have any credit. We find probably sixty to seventy percent have no credit. And that makes it difficult. Typically, I would say maybe twenty, twenty-five percent had jobs, but seventy-five percent don't, so there's no job history. And rental history is a very hard thing to get.

### **Inability to Remove Problem Residents**

Tenant selection and screening problems are compounded by the fact that ending a Section 8 tenancy is much more difficult than ending a regular market tenancy. Typically, for an unassisted tenant, the eviction process is difficult and rarely used. Owners more often end the tenancy of problem residents by simply not renewing their leases at the end of the lease term. In some markets, risk is further reduced because owners set short initial lease terms (such as 90 days at a time). In a Section 8 rental, the situation is different. The initial lease term is one year, and owners are required to offer new leases at the end of the lease term. This means that even at the end of the lease, an owner cannot end the tenancy without going to court to prove good cause. This adds substantially to the time it takes to remove a disruptive resi-

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9. The report includes comments from the four focus groups which are used to illustrate group responses. We have edited the comments to remove redundancies and pauses associated with spoken comments, but have not altered their content.

dent.<sup>10</sup> In addition, because the eviction process in Section 8 involves a third party, the PHA, eviction is also more difficult than in the unassisted market. Owners reported that the delay in the ability to remove disruptive Section 8 residents can lead to "good" tenants moving out of the property, causing additional uncompensated losses to the owner.

HUD shouldn't be in the business of determining whether or not you continue to keep that tenant. If they've accepted the tenant on the program, then I think their responsibility is done. Now it's the responsibility of the tenant and the landlord to get along together. And if they can't get along together, then they should be able to sever the relationship—through the courts or whatever. HUD doesn't have any business coming back in and saying you can't evict this tenant or you can't take him to court. But they do.

With a problem tenant, if it's a market tenant, all you've got to deal with is that market tenant. If it's a subsidized tenant, now you've got to deal with the tenant and an arbitrator. You have to have the approval from the Agency.

We've had conventional tenants that we've evicted for housekeeping problems. But we've never had a Section 8 tenant that we've been able to get rid of for the same reasons. It's a separate standard.

When we have a problem we want them out right now, so we don't have 10 people move out because of one bad apple. With Section 8 you cannot do that.

### **Inability to Turn Down Section 8 Applicants**

Another concern is that often owners and Section 8 Voucher and Certificate holders themselves are under the impression that holders of a Voucher or Certificate cannot be turned down for any reason. Some owners believe that because the housing agency pays most of the rent, the owner cannot exercise the usual screening criteria. Further, some owners voiced concerns about rejecting Section 8 applicants for fear that they will be perceived as discriminating against a minority applicant. Another factor contributing to the difficulty in turning down Section 8 applicants is the feeling of entitlement among some Voucher and Certificate holders, who reportedly believe that they cannot be turned down for a unit.

If rent was five hundred dollars, and they had a Voucher for five hundred or four hundred and fifty dollars, I was under the impression I couldn't have turned them away.

10. Focus group participants reported one case of a public housing agency that did not enforce the automatic extension policy; in that area, owners could decide not to renew leases of disruptive residents even under Section 8.

A lot of people's perception is that if they are on Section 8, you have to take them regardless of their income. It's hard to explain it to them, because they think because they are on Section 8, they don't have to qualify for income.

## **2.2 New Leases**

The process of signing a lease for a new Section 8 resident raises three areas of concern among owners and managers:

- Lease requirements;
- Below-market security deposits; and
- Inspections.

It is worth noting that rent levels *are not* on this list (though as noted below, allowed rent increases are problematic for owners). Owners were generally not concerned with initial rents. The initial rent levels merely defined which units could be rented under Section 8.

Well, Section 8 sets the price, and if their price doesn't meet our need in a particular area, we won't have Section 8 there.

... but they are not going to qualify on a "B" or an "A" property, because the rent levels are too high. So it's not really an issue.

Nevertheless, they did voice a preference for the Voucher program because of the less rigid rent requirements compared with the Certificate program.

### **Lease Requirements**

Owners generally voiced objections to the fact that, for Section 8 residents, many jurisdictions require that owners sign a different lease than the one they sign with unassisted renters. Owners said that standard leases have been developed in most markets. These standard leases reflect state and local laws and generally are accepted by both owners and residents. Requiring a separate lease for Section 8 renters undermines an owner's ability to maintain consistent management practices throughout their properties.

The Section 8 tenant should be required to sign the same lease as every other resident in the property, so they are subscribing to the same rules, same conditions and so forth. Then if there is a special addendum regarding that Section 8 tenant, it should apply strictly to terms of payment, or other matters relating to the local housing agency, but

that's it. The rules and regulations for the property should prevail equally to all residents.

They don't sign our standard lease. Section 8 typically has their own lease, and it doesn't mirror the TAA [Texas Apartment Association] lease.

...there are special rules that apply to them that don't apply to anyone else.

### **Below-Market Security Deposits**

Because Section 8 residents have low incomes, the treatment of security deposits and the process for collecting for damages is different from the regular market. In the unassisted market, a one month's security deposit is typically required.<sup>11</sup> At the end of the lease term, the owner may keep all or part of the deposit if he or she can show that the resident caused damage beyond ordinary wear and tear. In the Section 8 program, it was felt that payment of a whole month's rent to the owner could be prohibitively expensive for a low-income family. The program allows for a reduced deposit and takes on the responsibility of reimbursing owners for damages beyond the security deposit.<sup>12</sup> Owners expressed concern that a low security deposit reduces resident incentives to maintain the unit.

They only have a fifty dollar deposit on it. They don't have anything to lose.... If you have a little more to lose, then you are more likely to make it clean when you move out or to take a little better care of it.

But we were able to pursue the other residents more easily for damages than we could with Section 8. Conventional residents had deposits. Sometimes they had double deposits on the apartment in order to be able to move in.

### **Inspections**

Feelings regarding the Section 8 program's required inspections varied greatly among owners. An inspection by an outside agency clearly differentiates a Section 8 lease from the ordinary market operation. In the unassisted market, potential renters are responsible for

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11. Indeed, in many localities, the owner collects not only the month's rent for the security deposit, but also first month's and last month's rent when the lease is signed.

12. In the Certificate program, the PHA is allowed to set the deposit as the maximum of the resident's monthly payment or \$50. In the Voucher program, the PHA may set a deposit up to the monthly rent to owner.

inspecting the unit and verifying that it meets their quality requirements, while in Section 8 the unit must pass the PHA's inspection in order to qualify for assistance. While owners generally voiced concern with this requirement, most owners felt that having housing quality standards (HQS) was probably a necessity, in order for the government to be sure that it was not spending money on poor quality units.

Some owners viewed Section 8 inspections *in principle* as a necessity.

If you look at why they put in place the policy of the initial inspection—why did they do that? They do it to be sure that they're paying money on a house or housing and that is safe, sanitary, and meets the minimum standards. And I think that's good.

I think the initial inspection is a must. I think the administration should see the housing that they're about to fund the money for. I think they need to not necessarily lower the standards, but recognize what is important and what is not important.

Other owners viewed them as an inconvenience and an intrusion in normal business practices.

Our residents are our own best inspectors. They're the sharpest people out. And that's who that responsibility should lie with. It should really lie with that resident to make sure he's getting value for the dollar.

Section 8 involves inspections, both before someone can move in and then on some kind of annual basis. We don't do that anywhere else, and I don't give up three or four days rent waiting for some inspector to come in and decide whether or not the unit is acceptable. The loss can be thirty to forty days.

### **Inspection Standards**

Regardless of their feelings about the validity of an initial inspection, owners did note that the actual standards adopted by some local housing agencies were unreasonable. Housing quality standards were also reportedly not always consistent with local housing codes. What appears to have happened as some local programs developed is that a set of items initially listed to describe acceptable housing quality has expanded to include a full set of features a Section 8 approved unit must include.

I have a property now that's under rehab. We have the contract signed on all the rehab. And there's one unit that has a couple of bricks that are missing outside of the window. It has no real effect on their living environment whatsoever.... And they will not pass the unit. We cannot move in someone on housing Vouchers or Certificates because they will not pass the unit because of those bricks and that is the only thing.



When a conventional resident moves in, and a light plate switch, one of those little plates over there is a little bit loose; they would note it on a move-in form; we would send the maintenance man in. After the move-in it would be fixed; everything's fine. On Section 8 often you've held that unit vacant for three weeks waiting for this inspection; the inspector comes in and he turns down the whole unit because of something minor.

Well, you're held to different standards than you would in a normal business relationship. A resident comes in, looks at a unit, which we would make ready by normal standards, and that would be acceptable to the public at large. But there's a higher and different standard when it's a public assisted program.

### **Problems with Inspection Implementation**

Owners expressed two main concerns about the way the inspections were implemented in specific housing authorities. The concerns involved:

- Consistency of inspections; and
- Timeliness of inspections.

**Consistency of Inspections.** Many owners said that housing quality standards were not always implemented consistently either across or within housing authorities. For example, one inspector would do a first inspection listing certain problems, and upon reinspection another inspector would raise different issues. In addition, it was felt that several inspectors in some sites were particularly "picky"—failing units for very minor problems.

... he was really, really, really tough. I mean if there would be one mark in the paint, he would fail it, just like that. I mean, we complained to his supervisor and said we want to work with him. We don't want to have an acrimonious relationship. But he's failing every unit, every single unit. And we would kill ourselves. We made three inspections. And finally they changed inspectors, and then we had a much different experience.

I could tell you that every HUD field office interprets the HUD requirements differently. Every housing agency does.... And they don't mind telling you that they know that they're interpreting a regulation differently. That that's the way they interpret it and that's what you're going to do to operate in their district.

Every housing authority is as different as day and night. It's like they each have a different rule book. Every inspector is as different as day and night. And every inspector may be different from Monday to Friday.

**Timeliness of Inspections.** A second area of concern related to all inspections (initial inspections, reinspections, annual inspections and damage claim inspections) was that there is often a long wait for scheduling inspections. Owners often do not receive any rent payments from the PHA while they are waiting for an inspection, which causes uncompensated losses. Before payments can begin on a new unit, the unit must pass inspection. Thus, the owner receives no rent payment for the time that elapses between preparing the unit for the inspection and the actual inspection (or reinspection if any deficiencies are found). Similarly, at an annual inspection owner rent is often abated (payment is withheld by the PHA) if any deficiencies are found; the withheld rent is not refunded regardless of how minor the problem was, or how long the owner has to wait for the reinspection. Finally, in the case of damage claims, units must remain vacant and unrepaired until a PHA inspection is conducted.

The inspection process is a tremendous problem. It can literally take thirty to forty-five days to get somebody in because you have to have an inspector come out. It takes up to two or three weeks to get an inspector just to come out and look at the property. Then they had to go back and finish the paperwork and then you have to go down and sign it.

You do all the extra paperwork required and then have to wait for an inspector—schedule an inspection, and get the inspector out. It takes four or five weeks typically before that new resident is in, which is lost rent. That is lost rent on a unit for which I have paid the insurance that month. I have paid the taxes. I've paid fixed costs on that unit and I lost rent on that unit while it sat vacant waiting for this inspector.

### **2.3 Payments and Relations with PHAs**

The problems owners encounter in ongoing relations with PHAs in general and in payments in particular vary greatly across housing authorities. In some cases, owners reported no problems with ongoing payments, while in others owners said that PHA payments were often late. Similarly, some PHAs reportedly were felt to be very cooperative, while others were felt to have an almost antagonistic attitude towards property owners. Some responses to PHAs were positive:

I think the main reason most people like the program is because they're guaranteed the rent. The rent comes in. It comes in on time. And once it's set up, you get that check every month and there's a lot of comfort with that.

They are responsive to both the landlord and the tenants' needs. I mean they really have a grasp on everybody's needs. They know what we need, they know what the

town needs, and they somehow put it together and make it work. They have the capacity, the intelligence, the power—whatever you want to jump on it.

Other responses were negative:

You have to go down to the Section 8 office. The manager leaves the property, goes to the office and sign the lease at their office and sometimes it is not ready when they say it is ready and the manager is gone from the property two hours to sign one lease.

It's very hard to deal with some of these agencies. We had a missing payment by the agency that went back four years.... It's very difficult to deal with the agency because you've got to go through their voice mail. You can never get an individual on a call. You can never get them to return your calls.

### **Payments**

Concerns were raised by owners and managers regarding three particular payment areas:

- Timeliness of monthly PHA rent payments;
- Abatement of rent for resident-caused damage; and
- Damage claim payments;

**Monthly Rent Payments.** Currently, owners feel that housing authorities have no incentive to be on time with rent payments, because they are not evaluated by HUD based on timeliness of payments. Nor are there any late fees or other direct penalties to the PHA for being late. Late payments by PHAs can cause owners to incur late fees or finance charges on their own expenditures, with no compensation from the PHA.

Since Section 8 pays most of the rent, we found that the rent didn't always come in a timely manner. There were quite a few problems. From Section 8. From the Housing Authority.

And the other problem we have is, frankly, some of the agencies in this area don't pay in a very timely fashion. It can be anywhere from 30, to 60 days, to 90 days late, and you can't file a suit against the agency. The owner pays the late charges.

You can't get the late charges from them. You don't know whether you're going to get your payment this month, next month, or the month after, in some cases. I don't think we have a single Section 8 resident right now who isn't running a delinquency, mainly because the agencies don't pay on time.

**Abatement of Rent for Resident-Caused Damage.** A major difference between a regular lease and a Section 8 lease is the periodic reinspection of units by the housing agency,

a concept totally absent in the unassisted market. Reinspections are required to take place at least annually. At every reinspection the unit must continue to meet housing quality standards. If the unit is found to be deficient, the rent to the owner may be abated until a reinspection determines that all problems have been solved. Three main concerns result. First, rent to owner may be abated due to resident-caused damage. Second, the duration of abatement is determined by the housing agency inspector's schedule—because rent payment is only reinstated after the housing agency reinspects the unit and determines that the unit is up to standard. Finally, many PHAs apparently never pay the rent for the abated months, even after the deficiencies are remedied.

For example, when they come to reinspect every year, if the resident is not keeping their apartment clean enough or meeting the interior conditions then the PHA will abate the rent. For us, it means we don't get paid because the resident was unclean.

We could have rent abated for a reinspection or an annual inspection if it doesn't pass, and often times it's not anything we have direct control over, such as their housekeeping or they have boxes stored somewhere, or something that's the resident's responsibility. That shouldn't be our responsibility.

To give you an example: if the resident doesn't pay his utility bills, and they turn off the electricity, then the housing agency stops paying for that unit. So, you get the electricity turned back on. Then you have to wrestle with the inspector to come back and verify that it's back on before your rent meter starts running again. I lost a month's rent because the inspector didn't come out and verify the electricity was turned back on. And I raised all sorts of heck. And I would have done better yelling at that easel.

**Damage Claims.** The process required to collect reimbursement for damage to the unit at the end of a tenancy was problematic for many owners. In order to compensate owners for the low security deposit, the Section 8 program allows owners to submit damage claims in an amount up to two months' rent (one month in the Voucher program) minus the allowed security deposit. However, in order to collect for damage claims, the owner often must submit the unit for an inspection, keeping it in the condition the resident left it in until the inspection is complete. As with other inspections, this process can take weeks, during which time the unit must be left vacant and cannot be readied for the next tenant. All of this causes losses in rent collected by the owner.

Section 8 will pay for the damages, but you have to get the inspector to come and see the damages. That may not take as much as thirty days but it takes several weeks and

you can't do anything until they get out there. Then by the time they do get out and look at it, and come to an agreement to pay you something, they don't pay you for the lost rent, so then you start to get the unit ready and released. By the time you go through all that, you've lost another month's rent. Maybe they paid you three hundred dollars for the damages. You are not even coming out ahead on that. So, the paperwork keeps the apartment vacant too long on the lease and vacant too long on the move-out.

## **2.4 Lease Renewals**

The three-way lease relationship plays an important role in distinguishing two aspects of the lease renewal under Section 8 from the unrestricted market:

- The decision on whether to renew the lease is not in the hands of the owner; and
- The owner cannot set the terms of the new lease.

### **Decision to Renew**

When a typical unassisted market lease expires, the owner may decide to offer the resident a new lease with a new lease term and rent. This allows both parties to decide whether or not to continue the agreement based on the new terms. In contrast, under Section 8 the resident may terminate the lease at the end of the lease term or any time thereafter with notification to the owner based on lease provisions (up to 60 days at most), but the owner may only do so for good cause, with 90 days notice and with approval by the public housing agency.<sup>13</sup> Further, in Section 8 the rent level must be approved by the housing agency.

If I have a disruptive tenant, I don't have to give him a reason when his lease comes up for renewal. I just tell him, I choose not to renew the lease. But if I have a Certificate-holder or a Voucher-holder, that's prohibited. I have to evict him for cause. So, now you have an individual who has a higher legal standing than my normal resident.

It's outlined in here. You have to have serious, other good cause—serious violations of the lease. And you have to go to court to prove this.

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13. The PHA will reimburse the owner for the rent for the month the resident leaves, and in the Certificate program, for 80 percent of the following month's rent.



**Renewed Lease Terms**

As indicated above, owners felt that initial program rent limits (both FMRs and rent reasonableness tests) were not a problem. It appeared that the limits essentially determined which units could be rented in Section 8. In contrast, ongoing rent increases were thought to be a problem, because if the market rent for a unit increased beyond what was allowed by the program or deemed reasonable by the inspector, the owner is faced with two alternatives: terminate the lease (which appears to be allowed, but only if the owner can demonstrate that program rent is below the market rent), or accept a below-market rent.

They won't let you raise the rents. They will come up with a percentage that they say is reasonable and it won't be what you could command in the market. So if that renewal is coming up, you can't raise that person's rent to the level that you would normally be getting.

I haven't had an increase in two years. They said no. So, basically other renters are paying on utilities. Two increases have occurred on the market rents. And with Section 8 we're still at 1991 rents.

## CHAPTER 3

### RECOMMENDATIONS

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The overriding goal in all of the following recommendations is to make the Section 8 program operate as much like the conventional rental market as possible, while maintaining the essential purposes of the program. This approach, of making Section 8 as transparent as possible, should make the program more accepted by owners of good quality properties in the private rental market. This generally means refocusing each aspect of Section 8 on the two parties involved and removing as many of the three-way aspects of the relationship as possible. Where this is infeasible due to the unique nature of Section 8 (low-income renters, significant government subsidies), alternatives are proposed. For each of the proposed recommendations we have tried to anticipate and address potential concerns that may be raised by the three affected parties: owners, residents and housing authorities. We also indicate whether the modifications will require legislative or regulatory changes, or whether it appears that they can be carried out through changes in practice under current rules.

#### 3.1. Applicant Selection

As indicated above, owners felt that accepting a Section 8 applicant was often more risky than accepting an unassisted applicant. First, Section 8 applicants often lack references and history that demonstrate their qualifications as potential residents. Second, it is difficult to end a Section 8 tenancy. If an unassisted renter turns out to be a problem, the owner can terminate the tenancy at the end of the lease term, or if the problem is particularly severe, the owner can go through the eviction process. In contrast, under Section 8, in addition to taking on more risk as a result of having less information to start with, it is much more difficult to correct a mistake by ending a problem tenancy either at the end of the lease or through the eviction process.

Further, for owners who have not participated in Section 8 at all, the first instance of participating imposes significant additional risks, because the statute requires anyone who takes a Section 8 resident in any unit in any property to take Section 8 residents in all properties and units (providing that the Certificate or Voucher holder passes other screening criteria and the

unit meets program requirements). Removing this restriction would reduce the risk to owners of trying the program.<sup>14</sup>

Property owners made several suggestions on ways to improve the tenant selection/screening process. Some owners thought that housing authorities should become more involved in the screening process by obtaining information on Section 8 applicants, and providing the information to owners. Others suggested that the PHAs prescreen applicants and certify them as "good tenants." This approach, combined with extensive tenant services and counseling, has worked in a demonstration setting, the Gautreaux demonstration. However, providing such services on a large-scale basis would be very costly and would involve the housing authorities in additional aspects of the rental transaction.<sup>15</sup>

At the other extreme, some property managers reported that they simply use the same screening criteria for Section 8 as for all applicants, including credit, background and required income ratios. These owners and managers reportedly exclude Section 8 applicants with poor credit or rental histories, as well as those whose incomes do not meet the required multiple of their portion of the rent, just as with any potential resident. This approach, which admittedly excludes some applicants, recognizes that the owner is responsible for tenant selection. It is more in keeping with the goal of making the Section 8 program more like the normal market. It emphasizes the role of the owner in screening, rather than relying on the housing agency to screen and approve residents.

In order for this approach to work, two additional steps need to be taken. The first step, which would not require any changes to current rules, would be to inform property owners and managers, clearly and strongly, that the responsibility for screening applicants lies with the owner, and not with the housing agency. A Voucher or Certificate implies nothing about the qualifications of its holder as a tenant; all it means is that the holder has been certified as being eligible to receive assistance. Owners should be made aware of the fact that they have the right and the responsibility to screen Section 8 Voucher and Certificate holders just as they screen all

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14. In jurisdictions where Section 8 is a source of income protected by antidiscrimination rules, the "all or nothing" restriction is essentially irrelevant because owners cannot turn down a potential renter merely because he or she receives Section 8 assistance.

15. Such active involvement by housing authorities may be appropriate or even critical to some programs aimed at using Section 8 to promote racial or economic deconcentration. This approach will be tested as part of the Moving to Opportunity demonstration currently being designed.

potential renters. It should be made clear to them how this can be done in a fair (nondiscriminatory) manner.

A second critical step, which would require statutory changes, would be to allow owners to maintain the right to terminate Section 8 tenancies the same way they terminate other tenancies. This would include having the right to limit the initial lease term, to decide whether or not to renew a lease, and to undertake evictions based on local rules.<sup>16</sup> Requiring owners to take responsibility for screening residents must be accompanied by the right to respond to problems as with unassisted renters. This would put Section 8 renters on a more equal footing with other renters. Some owners suggested that if PHAs retain control over the termination process, they should take complete responsibility for screening and ongoing tenant conduct. This would essentially make the PHA the responsible party for all aspects of the tenancy, rather than the resident. The alternative of removing the PHA from the selection and termination process is preferred because it makes the Section 8 owner-resident relationship more similar to the unassisted relationship.<sup>17</sup>

Assisted residents may express concern that making the lease agreement more similar to an unassisted lease removes some protection they have regarding evictions and lease terminations. The response to this concern is twofold. First, owners are in the business of providing housing, and removing residents is a costly process that is reportedly only done in extreme cases. Second, making Section 8 residents more like regular renters is likely to give them *more* rather than fewer opportunities in terms of places to live, because the current protections limit the number of owners willing to rent units in the Section 8 programs. Under this proposal, Section 8 residents would have the same legal protections as regular renters in lease terminations and evictions.

Owners may express concerns that this proposal still leaves them with less information than usual about potential renters. However, having the ability to remove problem residents should alleviate this fear.

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16. If short initial lease terms are allowed, inspections should probably still remain at one-year intervals.

17. In the original rental assistance program, Section 23, the PHA was responsible for all aspects of tenancy: finding the unit, signing the lease and maintaining the unit. This approach was later rejected because it was too cumbersome and too restrictive on families' choices.

In summary, we feel that applicant selection should remain the responsibility of property owners and managers. However, the program should be changed so that the responsibility for applicant screening is accompanied by the right to use standard market procedures to terminate the tenancy of problem residents (including having the ability to set initial lease lengths, having the right to decide whether or not to renew a lease, and having the ability to undertake evictions based on local rules).

### 3.2 New Leases

The overall goal in reworking the Section 8 leasing process should be to make the process as similar to normal market operations as possible. As noted above, the Section 8 lease is different from a regular lease in several ways: the lease itself (which sets out the rights and responsibilities of the parties involved), the security deposit, and the inspection.

#### **Lease Agreement: Resident and Owner Roles**

To make the process more like a regular market transaction, the owner-resident relationship should be governed by the lease which they both sign. In order for the housing agency to agree to pay a subsidy for a specific unit, the HUD secretary could maintain the right to set specific terms to be included in the lease, such as the current lease addendum; beyond that the PHA should not be involved. As indicated above in the discussion of resident screening, this would mean that the Section 8 resident would be directly accountable to the owner, just like an unassisted renter, for unit maintenance, payment, and lease renewal. The owner, in turn, would be accountable to the resident for providing good quality housing. As with a regular renter, the Section 8 resident would retain the protections provided to all renters in the local jurisdiction, including the right to call in the appropriate authorities or, where allowed, to escrow rent for failure of the owner to provide quality housing as promised.<sup>18</sup> The owner would also retain the same rights as with other renters: the choices about lease terms and whether to renew leases, and the ability to evict problem renters.

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18. Because most of the rent is paid by the housing authority, the agency would need to become involved in cases where the renter wanted to withhold rent. If a rent stamp or two-party check mechanism were used (where the subsidy was channelled through the resident), the resident would retain total control over nonpayment for cause.



### Security Deposits

An important concern in trying to make the program work more like an unrestricted market rental is in the area of security deposits. Typically, in unassisted rentals, owners charge renters one month rent as a security deposit. The Section 8 program recognizes that coming up with a month's rent could put Section 8 out of reach for many low-income families, which is why the current program allows for lower deposits, with the provision that owners can submit damage claims to the housing agency. Owners feel that the below-market security deposit differentiates Section 8 renters from other renters in two ways. Collecting for damages when they occur is necessarily different, because the owner must collect from the PHA instead of from funds he or she holds. Owners also believe that paying a low security deposit reduces the resident's incentive to take care of the unit.

Some have suggested two alternative approaches for making the Section 8 deposit the same as the unassisted deposit. First, one could require renters to pay the deposit, just as unassisted renters do. Alternatively, the housing agency could pay the deposit up-front for the resident, or it could pay it in monthly payments throughout the first year of tenancy. We feel that neither of these alternatives is acceptable. Requiring Section 8 renters to pay a full month's rent as the security deposit seems unreasonable given their low incomes and resource levels available. (It should be noted that allowing full security deposits is part of the proposed rules for merging the Voucher and Certificate programs, though no mention is made about how Section 8 recipients will be able to come up with the required funds.) The second alternative, PHA payments, is also unlikely to be acceptable because of the high outlays that would be required of housing authorities and the exposure of public monies to control by private owners.

We believe that the problem of low security deposits can be addressed through minor changes to the current system, retaining the below-market security deposits and the damage claims procedure. Requiring either a more speedy resolution to damage claims, or requiring PHAs to pay for delays, would likely solve many owner concerns. Currently units for which owners submit damage claims must remain vacant and untouched until an inspection is performed. The concern owners raised was that the process can often take several weeks, time for which the owner cannot collect any rent payments.

As indicated above, owners felt that, in addition to the direct monetary loss that resulted from the below-market deposits, they also had an indirect effect of reducing resident

accountability. Recognizing that requiring a full deposit was probably infeasible, it was felt that some other mechanism needs to be adopted to assure that residents feel responsible for unit and property upkeep. Owners suggested that PHAs adopt alternative approaches to increase accountability, if security deposits could not be market-level. One suggestion was to consider eviction as a reason for losing program eligibility—households who are evicted from a unit for cause could lose assistance. It was noted that this is the case in public housing where the PHA is the owner, and is also one of the proposals in the proposed rules for merging the Voucher and Certificate programs.<sup>19</sup> The problem with this approach is that it would require significant housing authority involvement in deciding whether the eviction is justified because the consequence of eviction would be so severe. We think that tenant accountability should be maintained through the ability to terminate tenancy, as with any regular resident, and not through added burdens. Presumably the desire to live in good quality housing and the risk of loss of one's home if the lease is violated are the major incentives for any renter to maintain their unit, not the amount of the deposit.<sup>20</sup>

### Initial Inspections

At one extreme, some owners would prefer to do away with HQS and inspections altogether. They argue that the market should make sure that quality is maintained: Section 8 renters should have the option of moving out of bad places, or getting local housing inspectors involved, just as unassisted renters do. On the other hand, many owners recognize that the inspection is likely to remain a cost of participation in the Section 8 program. Because the government spends large amounts of money on subsidies, it is likely to want and need to obtain some assurance about the quality of units that receive assistance. Attempts have been made in the past to have residents screen for HQS. However, this approach has several major

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19. Public housing authorities, as the owners of public housing may be in a position to judge whether eviction from a public housing unit is grounds from termination of assistance. We do not feel that this is appropriate in the case of evictions from private rental, because of the extraordinary involvement in the eviction process it would require.

20. PHAs should still maintain the right to terminate Section 8 eligibility if residents owe money. Currently, if residents are found to have damaged a unit, the housing authority will pay the damage claim, and then attempt to collect from the resident. Residents who do not pay, as required, may be terminated from the section 8 program. This keeps the owner-resident, owner-PHA, and resident-PHA transactions separate. The PHA does not use a resident-owner interaction (eviction) to terminate assistance (a PHA-renter relationship).

drawbacks. First, residents are not as able as professional inspectors to screen for health and safety risks.<sup>21</sup> Second, residents are placed in the position of enforcing quality standards that may make it impossible for them to rent (or remain in) a unit they would like to rent (or remain in). Finally, the housing quality inspection, which is designed to guarantee that the government is paying for good quality housing, is part of the owner-PHA relationship, and thus should not involve the resident. The resident should separately screen the unit for features that he or she feels are necessary.

Below we present a series of recommendations that would improve the inspection process. Some of the changes are specific to initial inspections or to particular types of owners, while others are general and relate to the timeliness and consistency of all inspections.

**Property or Owner Certification.** Property owners and managers who operate a large number of units in a particular property feel that the current system of an annual inspection of each unit is particularly burdensome. One way to resolve this problem would be to introduce a system in which a *property* (and not each specific unit) is certified as approved for Section 8. Once an owner establishes a good track record for providing quality housing in a given property, the property could be considered approved for Section 8, requiring only periodic audits of a sample of units rather than pre-occupancy and annual inspections of all units. Similarly, in jurisdictions that require local inspections of rental properties, passing the local inspection could be considered grounds for certifying that a property is acceptable for Section 8, provided that the PHA views the local inspection standards as sufficient. Allowing a pre-certification of a property would substantially reduce the vacancy time between rentals because new renters could move into units in approved properties without having their specific unit inspected. This approach would be particularly beneficial to owners and managers of large properties that have more than one Section 8 unit, which currently may have numerous inspections conducted each month. This would require a statutory change, since the current law requires that each unit be inspected prior to the HAP contract signing and at least annually thereafter.<sup>22</sup> If a switch to a property or owner certification system is infeasible, then at the very least inspections of

21. In the Administrative Agency Experiment, different agencies had residents, staff generalists, or inspectors conducting HQS type inspections. It was generally found that the quality of units was highest when inspectors were responsible for inspections. See W. Hamilton, *A Social Experiment in Program Administration, The Housing Allowance Administrative Agency Experiment*, Abt Books, Cambridge, MA, 1979, pp. 92-99.

22. 42 U.S.C. Section 1437f(o)(5).

multiple units in a given property should be scheduled together with the goal of minimizing the burden for on-site managers.

**Inspection Standards/Consistency and Flexibility.** Regarding all inspections (including initial inspection, reinspection, annual inspections and damage claim inspections), the process for scheduling and conduct should be reviewed carefully with the goal of focusing on the intent of the inspection, namely to guarantee that only acceptable units receive subsidies. As indicated above, in some PHAs the original list of standards has expanded to include a wider range of required unit features. Further, inspection outcomes for a given unit are often inconsistent. The outcome may vary depending on who conducts the inspection. Finally, a reinspection of a unit may involve a completely new inspection finding faults that were not raised during the first inspection. Several improvements to the inspection process can be accomplished without legislative change, but rather through clarification of the intent of the inspection, and through changes in practices.

First, inspector training on HQS should be reviewed with the goal of making outcomes more consistent and reflective of the goal of providing safe, decent housing. Second, a more flexible checklist could be obtained by introducing a scoring system to the inspection. Points could be assigned to each item on the list, with a minimum number of points needed for a unit to pass. Deficiencies in health and safety features would yield a score that led to automatic failure, but some number of minor failures could be allowed, as long as the overall deficiency score was low enough.

Moving away from a rigid checklist approach for approving units may raise concerns among PHAs because the oversight process of PHAs by HUD field offices involves audits that focus on whether assisted units appear to meet all HQS requirements. The audit approach would also need to be more flexible if the checklist is made more flexible. However, increased flexibility is very consistent with HUD's mission of becoming result- rather than process-oriented.<sup>23</sup>

**Conditional Approval.** Another change, which we believe could be carried out within the current laws, would be to allow "*conditional approvals*" for units with minor deficiencies.

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23. This goal of becoming outcome-driven rather than process driven is a key feature of HUD's mission as stated in *Creating Communities of Opportunity, Priorities of U.S. Department of Housing and Urban Development*, HUD, October 1993.



In other words, units with minor deficiencies could pass conditionally, for example, with the owner required to make necessary repairs within a given time-frame. The housing agency could then either return to reinspect the unit, or rely on the resident to follow-up. In either case, the lease would be signed, the resident could move in, and payments would start to flow.

This method could also be implemented using the current type of HQS checklist, by assigning points to each item. A unit would pass if it scored above a certain level, would pass conditionally if it scored below that level, but above another critical value, and would fail if the score was below the lower critical value. Points could be set so that deficiencies in key health and safety features would yield a score that led to automatic failure. Similarly, an approach like the American Housing Survey (AHS) deficiency score could be devised in which a unit would be considered very deficient (automatic failure) if a particular number of items were in poor conditions, and moderately deficient (conditional approval) if a smaller number of items were in poor condition.<sup>24</sup> Allowing units to pass conditionally would give inspectors more flexibility in passing units, while at the same time minimizing the vacancy time between rentals. That would not compromise quality, because the unit would still need to be brought up to standard and reinspected.

**Timeliness of Inspections.** All inspections should be completed in a timely fashion within some pre-specified timeframe. We would recommend that if the housing agency did not complete the inspection within that timeframe (e.g., two weeks for the initial or annual inspection, and five business days for a reinspection or damage claim inspection), it should be assumed that the unit qualifies (or in the case of a reinspection, that the owner has fixed the deficiencies). Similarly for damage claims, if the PHA does not complete the inspection to verify the owner's claim within the specified number of days, then the PHA should be required to accept the claim and must pay the damages. This process of a prespecified limited time for each PHA action would move an appropriate share of the burden of slow processing from the owners to the housing authorities. The housing authority would be held responsible for acting promptly to assure that poor quality units were not receiving assistance.

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24. *Codebook for the Annual Housing Survey Database*, Abt Associates, Cambridge, MA, April 1989, pp. 63-68.



In summary, the process of signing a new lease can be made more similar to ordinary market operations, without adversely affecting program goals. PHAs should not be involved in owner-resident relations. Instead, the lease between the owner and resident should define the relationship. All inspections should be conducted in a timely and consistent manner. Consideration should be given to changing program regulations to allow annual certification of a property instead of requiring separate certification for each unit in the property. Similarly, consideration should be given to a system that allows "conditional approval" of units that have minor deficiencies.

### **3.3 Payments and Relations with PHAs**

As indicated in Chapter 2 above, there are three areas of concern with regard to payments: ongoing monthly rent payments, abatement of rent for resident caused damage, and damage claims.

#### **Ongoing Payments**

The owner-renter lease cannot cover all aspects of the rental in the same way the unassisted lease does, because of the PHA's role in paying a share of the rent. This results in a two-part payment stream to the owner. Rent payments could be made more "normal" in several ways. One way, which would focus on the two-way owner-renter relationship, would be to channel assistance payments through the resident. Payments could be made through a rent stamp like a food stamp or a two-party check that could be redeemed for housing only, or alternatively through reimbursements to residents for rent payments based on receipts.<sup>25</sup> This type of change in the payment mechanism would probably require changes in the statute to allow payment contracts with residents rather than contracts with owners. Another way to retain a single payment stream would be through having the housing agency pay the full rent to owner, and collect the resident's share directly from the resident.

Shifting the payment mechanism to one in which PHAs reimbursed residents based on monthly rent receipts, or PHAs were made responsible for collecting the resident's monthly share of the rent would significantly increase the burden on PHAs and, thus, it is unlikely that

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25. The alternatives of direct payments to residents and two-party checks were successfully tried in the Demand Experiment and the Administrative Agency Experiment in the 1970s.

either of these two approaches would be implemented. However, shifting to a two-party check, where both an owner and resident signature are required, would not appear to increase the PHA burden, and would maintain the two-party owner-resident relationship. We therefore recommend that this approach be considered.

Retaining the current two-stream payment system would probably be less of a problem for owners if housing authorities were held accountable for timeliness of payments. Payments should be on time, or housing authorities should incur late fees for late payments, unless they can show that they were late in making payments for good cause (such as an owner's violation of some provision of their agreement with the PHA). It is likely that the funds to cover late payments would not be allocated from new budgets, but rather would come from housing agency administrative fees.

As with HUD oversight of housing quality inspections, requiring more timely payments should be part of HUD's oversight of housing authorities. The idea of measuring housing authorities' performance on the basis of outcomes rather than process has begun to be implemented for the public housing program.<sup>26</sup>

### **Abatement of Rent to Owner During the Lease Term**

At each annual or periodic reinspection of units receiving Section 8 assistance, the unit must continue to meet housing quality standards. Under current practice, if the unit does not pass HQS, *regardless of the cause*, rent to the owner is often abated until the deficiency is repaired and the unit is reinspected.

The concern regarding abatement of rent for resident-caused damages is unique to annual or periodic reinspections. The problem with abating rent for resident-caused damage is that it unfairly penalizes owners for resident actions over which they have no control. However, the alternative of having the PHA decide which damage is owner-caused and which is resident-caused places an unnecessary administrative burden on the housing agency.

Our proposal for remedying this problem requires three action items. First, rent to owner should not be abated during the lease term. Second, owners need to have the right not to renew a lease. Third, inspections need to be scheduled so that there is enough time for any

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26. See *The Public Housing Management Assessment Program (PHMAP) Handbook*, U.S. Department of Housing and Urban Development, March 1992.

required repairs to be completed and a reinspection conducted prior to the termination of the lease. Under this scenario, the housing agency would inspect the unit in a timely manner and report on damages. The owner and resident would then need to agree on who had to pay for repair of any damages. If they could not agree, then they would not renew the lease, and proceed as with any other situation of a vacating renter with damage claims or other grievances.

Neither the statute nor the regulations require rent payments to be stopped for deficient units if repairs are made promptly. In fact, PHAs are supposed to give owners 24 hours to fix serious deficiencies and 30 days to fix minor deficiencies. Therefore, stopping the practice of abating rent during the lease term would only require a clarification of federal policy.<sup>27</sup>

### Damage Claims

As indicated above, one of the main concerns raised regarding the below-market security deposit is the process for collecting on damage claims. In order to collect for resident-caused damage, the owner often must submit the unit for an inspection to verify the claim. As with other inspections, the time required to schedule an inspection is often quite long; during that time the unit must remain vacant and unrepaired. This would cease to be a problem if damage claim inspections, like all other inspections, were scheduled in a more timely manner. As with other inspections, if the PHA did not complete the damage inspection within the pre-specified time, they would assume responsibility for the outcome, automatically accepting the owner's claim. In the meantime, the owner could repair the unit and rent it out again.

In summary, ongoing payments should be made in a timely manner, or else PHAs should be held accountable for delays. Further, rent to owners should not be abated during the lease term. Improving the timeliness of inspections should address the remaining concerns.

27. See USC 42 Sec 1437(o)(5) "No assistance payment may be made for a dwelling unit which fails to meet such quality standards unless any such failure is promptly corrected by the owner and the correction is verified by the public housing authority," and 42 CFR 882.211 .. "PHA *may* exercise any of its rights and remedies under the contract, including termination of the housing assistance payment." For a description of current policy, see *Conference Coursebook for Quadel Consulting Corporation's 17th Annual Section 8 Existing Housing Program Conference*, Quadel Consulting Corporation, October 1993.

### 3.4 Lease Renewal

As indicated above, owners are not free to terminate the Section 8 lease as they are with unassisted residents, nor are they free to set the new rent level based on market forces. Several changes can be made which would make the lease renewal process closer to a regular market transaction. At lease expiration, the decision to renew, as well as the lease term, should be agreed to by each of the parties: the owner should be allowed to decide whether to offer a new lease, just as the tenant should be allowed to decide whether to accept the offer.

Allowable rent increases for Section 8 units are necessarily capped in the Certificate program in order to limit PHA outlays. However, as in the unassisted market, if the rent rises beyond what is considered reasonable by the resident, he or she is free not to renew the lease and to move to another unit. To make the process work, as was described above for annual reinspections, the process for lease renewals should include an early notification by the PHA of the new maximum rent. The owner and the resident would then each have the opportunity to decide whether or not to continue the lease.

### 3.5 Summary

The series of recommendations presented above are aimed at making the Section 8 program more attractive to owners of units in the private rental market. We feel that the way to make the program attractive to these owners is to make the Section 8 process as similar to regular market operations as possible. The concerns addressed reflect those raised by the property owners and managers who participated in the focus groups. The recommendations represent our best effort to address these concerns, while maintaining program goals of providing good quality, affordable housing to low-income families in the private market.

We recommend that implementation of these recommendations should be tested through demonstration programs in order to examine the effects of changes on the parties involved. This can most effectively be done by requiring HUD to implement the changes initially in a probability sample of PHAs and to evaluate the effects of the changes by comparison with program and recipient outcomes in a probability sample of PHAs operating under current procedures.

**Additional Questions**

from Chairman Gonzalez to  
**Ms. Christina L. Garcia**

**National Multi Housing Council, National Apartment Association**

1) One of the central provisions of the proposed merger of the Section 8 certificate and voucher programs contained in H.R. 3838 is the retention of the certificate program provision limiting a low income tenant's rent to no more than 30 percent of their adjusted income. This provision is retained in H.R. 3838 because of concerns about the rent burdens that might otherwise be faced by low income tenants. However, I am also concerned about the housing choice of low income tenants -- providing low income tenants with an adequate range of decent and safe housing to rent.

-- In order to provide tenants with adequate housing choice, while at the same time protecting against excessive rent burdens, how high would you set the rent to income ratio for low income tenants, and in what manner?

2) What in your view are the most significant problems facing low income tenants currently in the Section 8 program?

3) The FY 1995 proposed HUD budget would reduce the percentile of local market rents at which Section 8 fair market rents are set. FMRs are currently set at 45 percent of local market rents. What potential impact would such a reduction have on housing choice of low-income tenants assisted under the Section 8 program?

4) The FY 1995 proposed HUD budget provides for a reduction in administrative fees under the Section 8 program. What impact would a reduction in administrative fees have on the administration of the section 8 program?

5) One criticism of the fair market rent system under the Section 8 program is that it inhibits tenant mobility because it is based on a metropolitan area wide basis, and does not reflect variations among submarket areas. Should the fair market rent system be adjusted to better reflect variances in market rents within submarket areas?



(3/17/94)

Christina L. Garcia  
for the  
National Multi Housing Council and National Apartment Association

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Answers to Chairman Gonzalez' Additional Questions

1. **In order to provide tenants with adequate housing choice, while at the same time protecting against excessive rent burdens, how high would you set the rent to income ratio for low income tenants, and in what manner?**

As your question implies, there is no easy answer. At least three important considerations are in tension: (1) a concern that low-income families not pay so much for rent that they are deprived of other necessities; (2) a recognition that individuals should make their own choices regarding the relative importance of housing services and other expenditures; and (3) a desire to assist as many needy persons as possible with limited federal resources.

Difficult trade-offs are unavoidable since the budgetary environment does not make housing assistance available to everyone who is needy. Congress can provide deeper subsidies for some families, but doing so means that other needy families will get no assistance. Congress can set a ceiling on the percentage of income a family can pay for rent, but doing so may mean the family cannot choose to pay a bit more to live near a better school, close to better job opportunities, or in a safer neighborhood. There can be no ideal solution.

I suggest the most reasonable approach would be (1) to retain 30 percent of adjusted income as a preferred standard for a low-income family's rent payment, and (2) to permit a family at its option to pay more than that standard, perhaps up to some maximum. Protections could be provided to counteract a temptation for HUD to cut program costs by setting its "fair market rents" too low and shifting an undue burden to the program recipients. For example, Congress could require HUD to monitor the percentage of families choosing to pay more than 30 percent of adjusted income for rent. When the percentage in a market area rises above some threshold -- say, ten percent -- HUD could be required to reevaluate the adequacy of the "fair market rent" in that area and submit the results of the study to Congress.

**2. What in your view are the most significant problems facing low income tenants currently in the Section 8 tenant-based assistance program?**

Since Section 8 renters are among the nation's neediest people, many have serious financial and other problems that deserve more careful discussion than is possible in this forum. I will limit my answer to problems that renters have with the operation of Section 8 itself.

In my experience, the most significant problem recipients have with Section 8 assistance is that participation in the program involves so many bureaucratic burdens. Some of the burdens may be unavoidable in a program that is income targeted, since program eligibility must be reaffirmed periodically. I do know that the procedures for annually reaffirming eligibility create a good deal of anxiety among many Section 8 recipients. Those procedures should be made as streamlined and convenient as is possible under the law.

Section 8 renters are directly hurt by program elements that make Section 8 applicants less acceptable in the market or that needlessly delay their occupancy of better housing. As I indicated in my testimony, I believe that many of those bureaucratic burdens are not necessary. Currently, these flaws in the Section 8 program make it excessively difficult for Section 8 renters to find housing in properties that do not have high concentrations of poverty. Those problems could be largely solved by amending the Section 8 program to reflect the normal practice of the rental housing market.

**3. What potential impact would a reduction in "fair market rents" have on housing choice of low-income tenants assisted under the Section 8 program?**

In general, a reduction in "fair market rents" would tend to concentrate the selection of apartments available to Section 8 applicants more exclusively in the more marginal neighborhoods and less desirable housing in a local housing market. Such changes in policy are too often made by looking at the averages of national statistics. In fact, the impact of a change in HUD's "fair market rents" could vary greatly from locality to locality. In low-rent neighborhoods, a reduction in "fair market rents" may have no impact on housing choice, except that there may be more Section 8 applicants here because they may not be able to find suitable housing in other neighborhoods. In neighborhoods that have relatively higher rents, a reduction in "fair market rents" is likely to have two negative consequences. First, the number of apartments available to Section 8 applicants would be drastically reduced. Second, larger numbers of Section 8 renters who have already found apartments where they want to live will be uprooted as HUD's "fair market rents" fail to measure up to the actual market rents charged for their apartments.

**4. What potential impact would a reduction in administrative fees have on the administration of the Section 8 tenant-based assistance program?**

Assuming no change in made in current Section 8 procedural requirements, a reduction in administrative resources could greatly exacerbate problems that make Section 8 unacceptable in much of the private housing market. Delays in inspections and other paperwork could easily make the program much more unworkable.

**5. Should the fair market rent system be adjusted to better reflect variances in market rents within submarket areas?**

Tenant-based housing assistance will work as it is intended only to the extent the fair market rent system reflects actual market conditions. That is difficult to accomplish in practice because rental markets are so dynamic. Rents can vary significantly not only over time, or from one neighborhood to another, but also within a building on the basis of location, amenities, or apartment configuration. Nevertheless, "fair market rents" are now often set for areas that are much wider than necessary. That may simplify calculations and lower costs, but it does so at the cost of program workability. HUD's "fair market rents" are then bound to be too low for some large areas and too high for others.

I do not believe it would be wise to require HUD by statute to define smaller "fair market rent" areas. However, the statute could authorize a public housing agency to evaluate its local market and to propose alternative set of "fair market rents" for market areas smaller than the area defined by HUD. This authority would have to be written in a way that does not give the public housing agency a strong incentive to set the alternative rents too high. Perhaps the statute could require the public housing agency to demonstrate that its proposed "fair market rent" alternative would more accurately mirror actual rents differences within the area without significantly increasing overall program costs.

On Behalf of the Children's Defense Fund --  
Statement of Congresswoman Brown  
Submitted for the Record to the  
House Banking Committee's Subcommittee on Housing and  
Community Development  
March 17, 1994

Chairman Gonzalez and Members of the Committee:

I am writing in support of the reauthorization of the Family Unification Program. As you know, this program provides desperately needed housing assistance to families with children at risk of entering or staying in foster care as a result of homelessness or other severe housing problems. The first year of the program's funding was just recently awarded, but children in at least 95 communities from coast to coast already have been able to stay together or be reunited with their families as a result of the program.

Children from seventy-eight families in Florida will be kept together or reunited with their families as a result of the first round of Family Unification Program funding and many more families and children will benefit by the continuation of this cost-effective program. It only costs about \$6,700 a year to keep an entire family together through the Section 8 subsidy in the Family Unification Program. Without this program, it costs, on average, more than \$10,000 a year to keep one child in foster care.

Chairman Gonzalez, I commend your longstanding leadership in identifying solutions to meet the housing needs of children and families and urge you to continue your support for the Family Unification Program. Without it, many children and families will be needlessly separated because of homelessness and other housing problems.

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### SUPPLEMENTAL STATEMENT TO THE TESTIMONY OF THE NATIONAL HOUSING LAW PROJECT

Before

the Subcommittee on  
Housing and Community Development  
Committee on Banking, Finance and  
Urban Affairs

March 24, 1994

Prepared by Gideon Anders

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The National Housing Law Project is submitting the following testimony on Title V of H.R. 3838, the Housing and Community Development Act of 1994, as a supplement to its March 16, 1994, testimony before the Subcommittee on Housing and Community Development of the Committee on Banking, Finance and Urban Affairs.

#### ADMINISTRATION'S BUDGET PROPOSALS

Before proceeding to comment on specific provisions of the bill, we want to express our strong concern about two parts of the Administration's budget proposal for the Farmers Home Administration (FmHA), namely, the proposal to decrease the amount of Interest Credit subsidy made available to Section 502 homeowners and the proposal to substantially decrease the funding for the Section 515 program. Together, these proposal threaten FmHA's continued ability to serve low- and very low-income households and transform the agency's primary housing programs into ones that will serve only moderate-income households.

The Administration's proposal to increase the payment level for single-family home loan borrowers who are receiving Interest Credit from 20 percent of the family's adjusted income to 30 percent of adjusted income will create undue hardship to low- and very low-income families that are presently benefitting from the program. It is likely to substantially increase defaults and foreclosures in the single-family home loan program and materially decrease the number of low- and very low-income families that will qualify for loans under the program.

While it may appear that borrowers under the FmHA single-family homeownership program are paying a smaller percentage of their income for shelter than other beneficiaries of federal subsidies, who generally pay 30 percent of their income for shelter, in fact they are not. Tenants in federally assisted rental housing programs are paying 30 percent of income for their total shelter costs which include the cost of maintenance and utilities. FmHA single-family homeowners receiving Interest Credit are required to pay at least 20 percent of their income for principal, interest, taxes and insurance (PITI). In addition, these homeowners must pay for maintenance of their home and utilities. In most cases, these additional costs increase the percentage of income that single-family homeowners pay for shelter to 30 percent or more.

If the Administration's proposal is adopted and the percentage of income for calculating Interest Credit is increased from 20 to 30 percent, it likely that these homeowners will pay 40 percent or more of their income for shelter. We believe that such a shift will create an extreme hardship on existing borrowers and is likely to increase dramatically the rate of defaults and foreclosures for the program. Indeed, we believe that it is

unconscionable for the federal government to qualify homeowners into the program on the basis of their ability to pay 20 percent of income for PITI and then to increase that percentage to 30 percent once they have bought their homes.

With respect to future homebuyers, the proposed decrease in Interest Credit subsidy will disqualify practically all very low-income families from qualifying for loans under the program. It will bring to an end this Committee's successful endeavors to ensure greater participation by low- and very low-income families by extending the Section 502 loan term to 38 years and by instituting the deferred mortgage payment program.

For these reasons we urge the Committee to oppose the Administration's proposal and to maintain the level of Interest Credit subsidy for the single-family loan program based on the borrower's paying 20 percent of adjusted income.

Our second concern is with the Administration's proposal to drastically cut the funding for the FmHA rural rental housing program, commonly known as the Section 515 program. Since its inception in 1961, the program has been one of the most successful housing programs that this nation has known. It is serving nearly a half-million rural households, nearly all of them having incomes that are considered very low and over half of whom are elderly. It is providing much needed decent and affordable rental housing in rural communities that historically have had a disproportionate share of the nation's substandard and unaffordable housing and that are underserved by other federal housing programs. While the program has experienced some abuses in recent years from some owners and builders, those abuses are relatively minor, easily controllable and do not justify the drastic cuts that are proposed for the program. Consequently, we urge that the Committee oppose the proposed cuts for the program and suggest that its funding be restored to at least Fiscal Year 1994 levels.

#### TITLE V OF H.R. 3838

With respect to Title V of H.R. 3838, we wish to commend the Subcommittee Chairman, Congressman Gonzalez, for introducing the bill. We wholeheartedly support practically all of the proposed amendments and modifications that the bill makes to the operation of the FmHA housing programs and believe that they will improve the programs and the agency's service to low- and very low-income households residing in rural areas.

Including Evictions in the Tenant Grievance and Appeals Process (Section 505)

In particular, we wish to endorse Section 505 which proposes to restore the right of tenants in FmHA rental housing to appeal proposed evictions under the existing FmHA tenant grievance and appeal procedure. We believe that, if properly used, the grievance and appeal process is more conducive to resolving disputes between tenants and landlords, is less costly to both, and provides tenants with a fairer and more accessible forum in which to contest evictions.

We suggest that the Subcommittee make modifications in Section 505 in order to eliminate any ambiguity with respect to tenants' right to appeal evictions under the exiting tenant grievance and appeal procedure, as opposed to the appeal procedure available to FmHA borrowers that is administered by the National Appeals Staff. Specifically we suggest that the proposed language be deleted and that the following be inserted in Section 510(g) of the act:

after "opportunity to appeal" insert ", in a non-judicial forum," and after "an adverse decision" insert "(including an eviction)".

Streamlined Reamortization of Section 502 Loans

Lastly, before proceeding to our other comments on Title V, we urge the Subcommittee to grant FmHA authority to reamortize on new terms FmHA single-family loans that have interest rates above the presently prevailing ones. We agree with the testimony of the General Accounting Office that such refinancing would benefit FmHA by reducing the number of defaults and foreclosures. It would also benefit thousands of homeowners by reducing their payment level and decreasing their reliance on the Interest Credit subsidy which they would not need if their home were reamortized at the presently prevailing interest rates instead of those that prevailed throughout the 1980s.

Comments on Specific Provisions of Title V

Reamortization of Existing Single Family Loans (Section 502(c)(4)). We support the provision that amends Section 505(b) by authorizing FmHA to lower the interest rate on loans at the end of a moratorium to the then current Section 502 lending rate and to establish a three-year period during which borrowers may make reduced payments. This provision should reduce the subsidy payments made by FmHA, enable some borrowers to retain their homes without further FmHA assistance and enable others, who have received moratorium assistance and who, heretofore, were unable to resume making regular mortgage payments, to continue to make payments on their loans and to retain their homes. However, the

proposed legislation needs to be amended to eliminate the provision requiring that the loan payments be restored to their original level after a period of three years. That provision eliminates all the benefits of reamortizing the loan because it requires that payments be raised to the original payment level after three years.

Technical Assistance Grants for the Preservation of Rural Housing (Section 503(a)). The Department of Housing and Urban Development has authority to make technical and predevelopment grants to resident councils and community-based nonprofit organizations in connection with the preservation of HUD-subsidized housing. We therefore welcome the provision that would authorize FmHA to make predevelopment grants to nonprofit and public agencies to assist them in preserving rural rental housing. Since, however, appropriation for such grants may not be available or sufficient, we urge that the legislation be amended to authorize the making of either loans or grants for these purposes.

Limiting Rural Rental Housing Prepayments in Response to Acceleration or Foreclosure (Section 503(d)). This amendment is sorely needed in light of FmHA's refusal to preclude prepayments of rural rental housing loans in response to the acceleration of loans. It eliminates an unintended loophole that permitted some owners to avoid the restrictions placed on the prepayment of FmHA rental housing loans.

Limitations on All Prepayments (Section 503(e)). We endorse the modifications proposed in this section that would subject the prepayment of FmHA loans to the same conditions that are applicable to the prepayment of HUD loans. We suggest, however, that the amendment be modified to fully conform to the HUD legislation by adding the following before the semicolon in paragraph (ii)-(I):

and will not in any event result in (i) a monthly rental payment by any current tenant that exceeds 30 percent of the monthly adjusted income of the tenant or an increase in the monthly rental payment in any year that exceeds 10 percent (whichever is lower), or (ii) in the case of a current tenant who already pays more than such percentage, an increase in the monthly rental payment in any year that exceeds the increase in the Consumer Price Index or 10 percent (whichever is lower);

Streamlined Refinancing of Rental Housing Loan (Section 506). The refinancing of Section 515 loans contemplated by this section should save FmHA substantial sums in Interest Credit and Rental Assistance subsidies. To avoid any confusion with respect to the need of new appropriations to accomplish this refinancing,

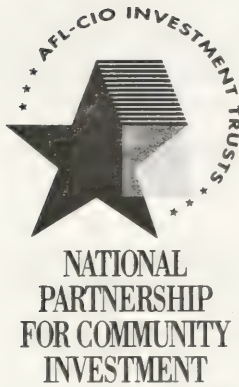


we urge that a new subsection be added stating that any refinancing undertaken pursuant to this section does not require new appropriations. Absent such an amendment, the authority to refinance will not be used because it will consume funds presently devoted to new construction.

In addition, we believe that the new subsection (z)(3) needs clarification with respect to whether refinanced loans become subject to new prepayment restrictions. Since the refinancing will benefit FmHA more than it will owners, we assume that refinancing will not place new prepayment restrictions on project loans. We also do not understand the purpose of the second sentence in the new subsection (z)(3) and urge that it be clarified.

New Construction Rental Assistance Set-Aside (Section 507(b)). We are deeply concerned by this proposal to create a New Construction Rental Assistance Set Aside that is equal to the average of the Rental Assistance funds made available over the past three years. Our opposition to this proposal stems from the fact that it sets the past three years' allocation for Rental Assistance as a minimum set-aside for all future years. In other words, the proposed formula establishes a Rental Assistance set-aside for new construction that can never go down and is not related in any way to the level of funding for the Section 515 program or the funds needed to renew expiring Rental Assistance contracts. The set-aside poses the real possibility that tenants in existing FmHA rental housing will have to be evicted because FmHA does not have enough Rental Assistance authority to extend expiring contracts while making Rental Assistance available to tenants moving to new projects for the first time. The negative ramifications of this legislation on tenants, on the financial viability of existing projects and on the effort to stem prepayment of FmHA rental housing are so great that we are opposed to this provision and urge its deletion.





**Testimony of James D. Campbell  
Director, National Partnership for Community Investment  
AFL-CIO Investment Trusts**

**Submitted to the Subcommittee on  
Housing and Community Development of the  
Banking, Finance and Urban Affairs  
U.S. House of Representatives**

**on the 1994 Authorizing Legislation**

**March 17, 1994**



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**Submitted to the Subcommittee on  
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**March 17, 1994**

I would like to thank the Chairman and the Members of the Subcommittee for this opportunity to present testimony regarding the reauthorization of the Section 8 Community Investment Demonstration Act. I also want to thank Chairman Gonzalez and the Members of the Subcommittee for their continuing and long-standing commitment to exploring and pursuing innovative solutions to America's critical housing problems.

Today I would like to convey to the subcommittee our support for the increased budget authority and appropriation in FY 1995 for the Community Investment Demonstration Program, also known as the Pension Investment Program. Although the Program is in its initial phases, the response to date indicates that there is real need for this type of initiative across the nation. Both Congress and the Administration should be commended for their responsiveness to this real housing need as demonstrated by the creation of this innovative program.

Briefly, the Investment Program, as established in the HUD Demonstration Act of 1993, set aside \$100 million in Section 8 project-based subsidies for multi-family rental and limited equity co-op housing projects whose construction or rehabilitation will be financed with pension fund capital. The President's 1995 Budget recognizes the need for the Investment Program and proposes increases in authorization and appropriation to \$514 million.

**The Continuing Need for Affordable Housing**

Despite the important efforts of this Congress and the Administration, a severe shortage of affordable rental housing continues to plague the country. There remains a critical need to build and renovate more affordable housing.

While recent lower interest rates have made homeownership more affordable, renters have not seen any relief. The percent of income that the typical household pays for rent is at a 25-year high. At the low end of the income spectrum, there are 4.7 million households that shoulder a severe rent burden, paying more than 50 percent of their income in rent, according to the Low Income Housing Service, based on the CHAS Database, U.S. Census, 1993. Many of these units are severely inadequate. This same analysis also shows that 1.4 million rental

units are severely inadequate or have other problems. When the number of rental households suffering severe rent burden or living in extremely inadequate conditions are combined, the total low-income housing "gap" - the need for additional decent rental housing affordable to low income households - is over 5.3 million units.

Despite these serious market needs, new apartment construction is at its lowest level in decades. According to the National Multi-Housing Council, only 98,000 rental apartment units were started in 1993. This trend continues in spite of a significant shrinkage in the affordable rental housing stock, as described in the Harvard University Joint Center for Housing Studies' report in "State of the Nation's Housing 1993".

This gloomy production trend is exacerbated by the limited availability of capital to finance affordable rental housing. The National Association of Home Builders continues to report a severe credit crunch for both construction and permanent financing that straps multifamily housing development.

A partial explanation for this financing gap is the lack of a fully-developed secondary market for multifamily housing loans. This is an especially troubling inefficiency given the shift in capital markets over the past decade.

Pension funds, with \$4.4 trillion in assets, have become the largest capital providers in the nation. However, pension funds currently have very limited investments in multifamily housing and will not move into this relatively new asset class unless they can obtain the security and liquidity that a secondary market provides.

The on-going reduction in rental housing supply, combined with shrinking vacancy rates in most metropolitan areas and a growing rental household population, presages an even more serious housing crisis in years to come, unless action is taken now to aggressively promote housing production.

#### **Community Investment Program: A Framework for Housing Production**

The Community Investment Program addresses the problems of affordability and supply simultaneously. It utilizes an existing federal program designed to assist low-income families to afford a home, while at the same time stimulating the production of new, decent, safe and sanitary homes.

The Program requires that the Section 8 assistance be project-based. Thus, a potential investor can include expected Section 8 rental income directly in cash flow analyses for new construction or rehabilitation. The predictability of the Section 8 cash flow attracts the securitization, which reduces the risk to the investors, and in-turn encourages new multi-family housing production. What emerges is a more efficient framework for using federal resources.

The Investment Program further offers advantages lacking in the old Section 8 new construction program and the current Certificate program.

First, mixed-income housing is emphasized. The Investment Program generally requires that Section 8 subsidies be limited to 50 percent of the housing units in any one project. This will result in stronger, more viable projects for the community. Further, developers will have to demonstrate that there is a demand for the units in that location based on the appeal of the project, not just the rent subsidy.

Second, the rental assistance contract may extend as long as 15 years. This adds income security that encourages pension fund investors to participate and also induces secondary market intermediaries - Fannie Mae, Freddie Mac, and state housing finance agencies - to securitize the long-term permanent financing. Consequently, the rental assistance maximizes the leveraging of additional public and private resources. In fact, the availability of the Section 8 assistance has been instrumental in encouraging Fannie Mae and Freddie Mac just recently to become more actively involved in the securitization of debt for new production of multi-family affordable housing.

Third, Investment Program guidelines do not permit developments funded with the Section 8 assistance to utilize FHA mortgage insurance. Thus, the Program will truly leverage private capital, instead of federally-insured capital. This is a critical element, in light of the current problems with the FHA fund.

Fourth, the Investment Program has a specific set aside of subsidy to facilitate the sale or refinancing of properties that are HUD-owned or subject to a HUD-held mortgage. Following the recent enactment of HR 4067, this set-aside will become an increasingly important tool for assisting HUD and developers to create financially-feasible disposition plans for these distressed properties.

Fifth, the subsidy is tied directly to the provision of financing from pension funds. This ensures that a primary source of investment capital is accessed at a time when other debt sources are limited.

#### **Leveraging Pension Fund Investment**

Over the same time that traditional sources of capital for multifamily housing production have declined, pension fund assets have dramatically increased and become a major source of capital in our nation's economy. Pension funds now represent:

- ◆ \$4.4 Trillion in assets -- more than those of commercial banks;
- ◆ 33 percent of the stock market, and 40 percent of the bond market; and,
- ◆ 33 percent of all financial assets in this country.

U.S. pension funds historically make only a small percentage of investments in affordable housing or community development. Instead they are concentrated in stock and bond holdings in traditional markets and increasingly in foreign markets. On any given day, over \$150 million in U.S. pension assets are invested overseas.

Pension funds could represent a significantly larger source of investment for affordable housing if a framework for investments exists which provides security, liquidity, and competitive returns. The Community Investment Program is designed to help provide such a framework. However, to effectively leverage pension funds, any program must be steady, predictable and at a serious level of funding. These elements are essential to induce pension funds to invest the time and expense needed to set-up the required capacity or intermediary to make investments in the complex world of affordable housing finance.

The Investment Program, in fact, will directly impact the limited multifamily pension activity in a way that has been suggested in the 1992 U.S. General Accounting Office study Pension Plans - Investments in Affordable Housing Possible with Government Assistance. The GAO strongly suggests that federal efforts designed to expand pension fund involvement in financing affordable housing should consider the need for certain elements: the important role of a financial intermediary, the pension funds' ability to invest in liquid securities, and the presence of government assistance in the form of subsidized funds and investment safeguards.

The Community Investment Program is structured to allow vehicles, such as the Trust, to serve as an intermediary; for institutions such as Fannie Mae and Freddie Mac to guarantee the secondary market; and the Section 8 subsidies to provide a predictable, serious commitment of federal assistance.

This inducement for pension funds to invest coincides with the Department of Labor's growing interest in the capital allocation of pension assets. The Department is currently seeking ideas on how to encourage pension investors to consider investments that improve communities while earning market rates of return. Investments made through the Investment Program would be considered just this type of investment.

It is important to note that these pension-related efforts have the strong support of the AFL-CIO, representing the voice of workers and their families, who by law must be the ultimate beneficiaries of all pension investment activities.

### **Overwhelming Response From Local Organizations**

I would like to report to the Committee that, in the five months since the Community Investment Demonstration Act was signed into law, the response we have seen at the AFL-CIO Housing Investment Trust has been overwhelming. The Trust serves as an investment vehicle for more than 370 public and private sector pension funds.



Currently, more than 170 affordable housing projects from around the country have responded to the Program. These projects represent more than 17,000 potential total units, almost half of which would require Section 8 Project Based Assistance. This level of interest has been generated from press reports, staff contacts, presentations to housing organizations, a notification requesting proposals distributed just this month, and the promotional efforts of HUD leadership. Such a strong display of interest indicates that the current demand for viable projects will easily outstrip the current appropriations of the Program. In fact, the total FY 1994 appropriation would assist only 20% of these requests.

We all can take heart at the type of projects that are coming forward in anticipation of the Investment Program. These projects can provide housing in a variety of urban and rural communities around the nation. Many are smaller, economically integrated projects that address the needs of varying groups, including large families, the homeless, people with special needs, and the elderly.

For instance, of the projects that the Trust has already begun to evaluate, the mix of projects types is:

Type of Housing	Percent of Units
Family	72 percent
Elderly	17 percent
Homeless/Single Room Occupancy	9 percent
Special Needs	2 percent

Almost half of these units would utilize the Section 8 assistance. On average, the Trust is being asked to provide debt financing for these projects, comprising approximately 40 percent of the total development costs. The remaining costs are typically financed from a combination of equity from Low Income Housing Tax Credits and locally controlled contributions such as HOME, CDBG and other local resources. As such, Trust financing and the rental assistance on the projects would significantly leverage other public and private financing sources.

Current proposals reflect many creative uses of available funding that will maximize housing affordability and new production. For instance:

- Along the length of the Rio Grande River Valley in Texas, where hundreds of thousands of people live in poverty-stricken "colonias", the Trust is working with HUD, local community organizations and officials to create a model of how existing resources can be better utilized to provide decent, safe housing.
- The renovation of an existing hotel in the Central City East area of Los Angeles has been proposed to create 65 single-room occupancy units for homeless individuals. The sponsor is an experienced non-profit organization that is nationally-known for its work

developing and managing housing for the homeless. The Trust has been asked to provide a \$1.4 million loan, that will leverage an additional \$2.5 million in funds from the Low Income Housing Tax Credit Program and the city of Los Angeles.

- Contributing to a broad-based revitalization effort in the Sandtown/Winchester neighborhood of Baltimore, approximately 136 units of family housing could be rehabilitated through \$3.5 million in HIT financing. Section 8 assistance is being sought for half of those units. This exciting project would help stabilize the surrounding community, and reinforce the substantial public and private investments which have been made recently in the area.
- In conjunction with an agreement with the Georgia Housing Finance Agency, the Trust could provide a \$1.5 million loan to renovate an abandoned school to create 54 multifamily housing units. Section 8 assistance is being sought for half of those units. Sponsored by a community non-profit organization, the development would significantly enhance their neighborhood revitalization effort.
- The Trust is reviewing an innovative proposal from the state of New Jersey to provide scattered-site housing for people with HIV/AIDS and their families. Long-term commitments from the State for necessary support services would be an integral component of the initiative.
- In the District of Columbia, the Trust is working closely with a community-based non-profit organization, a local developer and the local housing authority to convert a vacant and severely distressed public housing project into a limited equity cooperative. Approximately 120 units will be renovated or constructed utilizing Section 8 assistance.

#### **New Affordable Housing Production System**

Overall, the Community Investment Program is an extraordinary initiative that takes a broad approach to the multifamily housing affordability crisis, targeting minimal federal assistance to create a replicable system of housing finance.

The Program will increase the development and rehabilitation of affordable housing units where there is a real need. It will leverage private financing from pension funds, the largest source of capital in the nation, and an under used source of affordable housing finance. And importantly, the Program reinforces the network of local organizations that must be an essential force in developing community-based housing that is affordable to the average American family, and critical to the revitalization of our cities.

The Pension Investment Program is working, having already spurred a flurry of activity among public and private housing partners. While no one program or resource is sufficient to

finance or produce affordable housing on its own - not HOME, CDBG, Low Income Housing Tax Credits, Section 8, Fannie Mae or Freddie Mac, or pension fund financing - taken together they create a viable affordable housing production system that could well serve the nation long into the future.

I strongly believe that by increasing the appropriation to the Community Investment Demonstration program, this system will be strengthened. It will send a message to the pension fund managers that this resource designed to leverage their investment is steady, predictable and at a serious level of funding. The result will be that thousands of low-income families across the nation are able to secure affordable housing that otherwise would not exist and that otherwise would not be within their financial reach.

I urge the Committee to enact the President's recommended authorization and appropriation.

Thank you for the opportunity to present this Statement.



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**STATEMENT OF THE CHILD WELFARE LEAGUE OF AMERICA**

**ON THE**

**HOUSING AND COMMUNITY DEVELOPMENT ACT OF 1994**

**SUBMITTED TO THE**

**SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT**

**COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS**

**U.S. HOUSE OF REPRESENTATIVES**

**APRIL 5, 1994**

The Child Welfare League of America (CWLA) appreciates the opportunity to submit testimony in support of H.R. 3838, the Housing and Community Development Act of 1994. CWLA is a membership organization representing more than 730 public and voluntary child-serving agencies that assist over 2.5 million vulnerable children and families each year. Over 235 of these agencies provide various emergency shelter services for the homeless and 50 agencies offer housing and specialized housing programs for vulnerable children and their families.

As housing becomes less and less affordable in this country, and as federal housing subsidies continue to fall far short of the demand, more families will be faced with separations because they cannot afford adequate housing. Other existing federal housing assistance programs have long waiting lists and carry over two million parents and children, many of whom will wait more than five years before getting housing assistance. Many cities across the country have closed their waiting lists because the demand is so great. Without assistance, the number of homeless families continues to grow. Last year, homeless families totalled 43 percent of the total homeless population and requests for shelter by homeless families increased by 13 percent from the prior year.

The plight and distress of so many Americans living in urban and rural communities where homelessness, poverty, crime and drugs have become prevalent and are overwhelming the best intentions of our service providers. The need for affordable and decent housing in safe neighborhoods is especially acute in communities where violence pervades and threatens the lives of our children and young people.

We are especially pleased that H.R. 3838 includes the reauthorization of the Family Unification Program (FUP). We look forward to working with the Committee to continue the success of this program which offers critically needed housing subsidies to prevent family separation. The FUP provides Section 8 housing subsidies necessary so that children will not have to be separated from their families and placed into foster care, and to assist child welfare agencies to reunite children in foster care with their families. Eligible families are identified by the public child welfare agency and housing assistance is provided by the local public housing authority. Funded at \$75 million in FY 1993, the Family Unification Program has successfully been implemented in 62 sites in 11 states, touching the lives of 1,272 families and over 2,000 children. For FY 1994, Congress approved \$77.4 million and HUD is about to announce the FY 1994 sites selected in 16 states to receive these 1,700 Section 8 rental certificates.

The 181 applications HUD received for the FY 1993 funding round indicate the great demand for this program. In Illinois, for example, the State Department of Human Services found just last February that 2,656 families face separation because of housing problems. Without FUP housing assistance, 3,720 children in just this one State are now at risk of being separated from their families and placed into foster care simply because their families cannot afford adequate housing. Pinellas County, Florida, estimated in its application that 15 percent



of the 600 children currently in foster care could go home and 20 percent of the children in emergency care could stay with their families if the family had housing assistance.

The County of Hamilton in Ohio, including Cincinnati and its suburbs, received 21 Section 8 FUP certificates last year that made it possible to:

- reunite 28 children with their ten families;
- prevent 15 children from 11 families from going into foster care;
- place seven previously homeless families, either living in a shelter or temporary housing, into Section 8 rental apartments; and
- allow two families who had been forced to move because of lead poisoning of the children to move immediately into safe FUP units.

Social workers from the Hamilton County Department of Human Services (DHS) assisted each family in securing housing and provided, where necessary, utility hook-up funds, furniture, moving expenses, homemaker and legal services. The DHS, in this case, also agreed to monitor and provide follow-up support for these families for one year.

While the housing certificate makes this housing program work, the most innovative and long-lasting relationship developed in these communities is between the housing authorities and the local child welfare agency. The children and families served by the FUP must be currently involved in the child welfare system. This involvement guarantees continued family and child help as the family adjusts to its new housing situation. Many of the child-serving agencies in the FUP have written agreements with housing authorities to provide longer-term assistance to maintain family stability. This continuum of support is critical to help families remain together.

The cooperation between local housing authorities and child welfare agencies has demonstrated the importance of housing and child serving agencies working together in the interest of children and families. Developing comprehensive service agreements between housing and service providers and tenant families officially sanctions arrangements that are critical to strengthening and supporting families.

The investment made today in the Family Unification Program to keep children and families together will prevent costly expenditures now and in the future. For every child not placed into foster care or not returned home from foster care, there is a potential savings of thousands of dollars per year. The cost of out-of-home care for *one* child can be as high as \$20,000 per year while Section 8 rental assistance to keep an entire family together costs only \$7,000 annually.

The continuation of the Family Unification Program as a separate Section 8 program is essential. There is a desperate need for affordable and decent housing in this country for millions

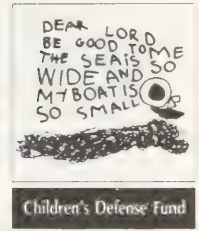
of people and every effort must be made to ensure that housing programs reach everyone who needs help. Until that goal is reached, it is important to recognize that some categories of people have extraordinary needs that should be met first. The extraordinary and compelling needs of families with inadequate or no housing who are at risk of having their children placed into foster care, or who cannot get their children back from foster care because of the housing crisis, must continue to be addressed. These families need housing in order to keep them together and prevent further costly crises.

This Committee recognized that need and in 1990 created the Family Unification Program as a separate Section 8 program. In creating the program, Congress recognized that the housing needs of these families are urgent. Children cannot wait years to be reunited with their families simply because their families cannot find adequate and affordable housing. Children must not be placed at risk of being torn from their families and placed into foster care because this country cannot provide enough housing assistance to those in need. Children must not be the victims of this nation's inadequate commitment to provide families the supports they need in order to prevent needless and tragic separations.

CWLA recommends adding language to H.R. 3838 which will allow families living in temporary quarters to become eligible for FUP assistance. Under current law, a family's eligibility for the FUP must be determined by the public child welfare agency. One of the eligibility criteria is that a family be experiencing a "lack of adequate housing" as defined by HUD's regulations. The current definition excludes those families doubled up temporarily with relatives or friends yet these are the families who are in need of FUP assistance. The statute should be changed to cross-reference the McKinney Act definition of homeless at 42 U.S.C. Section 11302(a) to allow these families to receive FUP assistance.

We also suggest the following changes to the public housing and Section 8 programs:

- As family incomes increase, defer rent increases for two years for working families.
- Increase the medical and educational deductions from 10 percent to 20 percent.
- Exclude income from children and youths in calculating a family's rent.



**STATEMENT OF THE CHILDREN'S DEFENSE FUND**  
**ON THE**  
**HOUSING AND COMMUNITY DEVELOPMENT ACT OF 1994**  
**SUBMITTED TO THE**  
**SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT**  
**COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS**  
**U.S. HOUSE OF REPRESENTATIVES**  
**MARCH 31, 1994**

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The Children's Defense Fund (CDF) appreciates the opportunity to submit testimony on H.R. 3838, the Housing and Community Development Act of 1994. The Children's Defense Fund is a national advocacy organization that exists to provide a strong voice for children -- particularly low-income and minority children -- in the public policy process. We work on a range of issues, including poverty, housing, homelessness, health care, child welfare, and child care, and seek to ensure that children get the supports they need to grow into healthy, self-sufficient adults.

CDF believes that the nation must recommit itself to the goals of decent, safe and affordable housing for all families because a safe and stable home is critical to the health, well-being and development of children. We commend the Chairman and the Committee for their longstanding efforts to increase housing assistance to low-income families with children and for their leadership and continued support on behalf of the Family Unification Program.

We are pleased that H.R. 3838 includes the reauthorization of the Family Unification Program, and look forward to working with the Committee to continue this program which offers critically needed housing assistance to some of our country's most vulnerable families.

The Family Unification Program provides Section 8 housing assistance to families who otherwise qualify for Section 8 and whose children are at-risk of entering or remaining in foster care primarily because of inadequate housing or homelessness. Although the program has just gotten underway, it already has helped children and families stay together in over 95 communities.

#### **THE NATION'S HOUSING CRISIS THREATENS FAMILY STABILITY**

Every child needs a safe and stable place to call home. But the nation's housing crisis is making that an impossible dream for millions of children and their families. Millions of families pay more than half of their income for rent, live in overcrowded, "doubled-up," or substandard housing, or cope with some combination of those circumstances. For many of these families, lease restrictions, interpersonal conflicts with those with whom they share housing, unexpected bills, or a job loss are likely to lead to homelessness. During the past decade, the number of families with children in such "worst case" housing rose almost 50 percent, from 1.4 million to 2.1 million families.

At the same time, families with children are the fastest growing subgroup of the homeless population. According to a 26-city survey conducted by the U.S. Conference of Mayors in 1993, homeless families with children now account for 43 percent of the homeless population, up from 32 percent in 1992. The National Academy of Sciences has estimated that at least 100,000 children go to sleep homeless every night.

In communities around the country, the lack of affordable housing is increasingly endangering family stability. Children are entering and remaining in foster care because their families are homeless or lack adequate housing. These tragic separations are painfully described by Jimmy, a 14-year-old interviewed in Judith Berck's book No Place to Be:

I was ten. My mother had this apartment and they didn't give her no heat. It was in the wintertime and she didn't want us to get sick or nothing, so she placed some of us in foster homes. . . . Nobody liked it, but we had to do what she said anyway, 'cause she's our mother . . . I was angry. Then I said to myself, well, she's doing what's best for us . . . It was hell. You don't know nobody -- you have to stay with people if you like them or not. In the beginning they broke us apart -- we all missed each other and stuff. Every two or three weeks they had a visitors' day. All of us would come together at this place, like a family reunion. It was happy, sad, everybody wanted to go home. It took my mother a while to get us back from foster care, almost a year. It was fun when we got back together, being with everybody you know, people who love you and stuff like that.

Jimmy's story is not unique. For example:

- ◆ A 19-city study by the National Law Center on Homelessness and Poverty (NLCHP) in 1993 found that 41 percent of the 147 surveyed programs reported that families were sometimes forced to split up to find shelter as a result of overcrowding and shelter restrictions on age and gender.
- ◆ The NLCHP report also cited a separate survey in Omaha revealing that 75 percent of the women who came to the shelter alone had at least two children in foster care, staying with relatives or friends, or in other alternative care.
- ◆ A 1993 study by the U.S. Conference of Mayors found that in 64 percent of the 26 cities surveyed, homeless families may have to break up to be accommodated in emergency shelters.
- ◆ In St. Louis between 1990 and 1991, the number of homeless children placed in foster care in St. Louis rose 270 percent. In 1993 alone, over 200 children were placed in foster care because of inadequate housing. Ten families with thirty-two children have been helped by the St. Louis Family Unification Program and many more are waiting to be helped. One hundred sixty-five children could have been reunited with their families in 1992 if St. Louis had received more certificates.
- ◆ A November 30, 1993 statewide census in Illinois reported 2,656 families in need of family unification assistance. FY 1993 funds, still to be awarded, will be the first funds Illinois receives from the Family Unification Program.



## **REAUTHORIZATION OF THE FAMILY UNIFICATION PROGRAM IS ESSENTIAL**

In 1990, with this Committee's leadership, Congress responded to these distressing problems by enacting the Family Unification Program as part of the National Affordable Housing Act. The program was enacted because none of the existing housing subsidy programs, or preference rules in place at the time, offered adequate help for families whose children were at imminent risk of separation and placement in foster care. In fact, the Committee first approved the program as an entitlement program because of its recognition of the tremendous need for assistance for these families. The Family Unification Program provides Section 8 certificates to families with children at-risk of entering out-of-home care, as well as to those families whose children are in care and can't return home because of homelessness or other housing problems.

The Family Unification Program received first-time funding in FY 1992. Fifty million dollars was awarded for certificates for 1,270 families in 11 states designated by the Appropriations Committees. For FY 1993, the program received \$75 million, enough funds for an estimated 1,600 units, and HUD designated five more states eligible for the program. In the FY 1993 applications, HUD has received requests for 14,000 units from about 200 public housing authorities in the 16 eligible states (CA, FL, GA, IL, MA, MI, MD, MN, MO, NC, NJ, NY, OH, PA, TX, VA), but awards have not yet been announced. \$77.4 million has been appropriated for the program for FY 1994.

The continuation of the Family Unification Program as a separate program within Section 8 is essential. The program is just beginning to make a difference. HUD is just beginning to offer help to housing authorities, and child welfare and housing agencies are just beginning to work together. Links are just beginning between HUD and the Department of Health and Human Services (HHS) in implementing the program. It is not sufficient, as some suggest, to make the Family Unification Program simply an eligible activity under the Section 8 program because it would eliminate any assurance that families with children at-risk of entering or remaining in out-of-home care because of housing problems would get the housing assistance they need to stay together. Housing authorities need more experience and familiarity working with child welfare agencies and the families who are the intended beneficiaries of the Family Unification Program before such a suggestion is even considered.

## **THE FAMILY UNIFICATION PROGRAM HAS MANY BENEFITS**

The first year of Family Unification Program funding, only recently awarded, already has helped children in at least 95 communities from coast to coast stay together or be reunited with their families. For example, families helped by the Family Unification Program in the first six months of operation include:

- ◆ 16 families with 43 children in Pinellas County, FL;
- ◆ 34 families in New Jersey, one of which had nine children in placement who were able to return home;
- ◆ 10 families in St. Louis, MO, seven of whom are being reunited with their children who had been in foster care;

- ◆ 21 families with 58 children in Cincinnati, OH and 12 families with 27 children in Cambridge, OH;
- ◆ 15 families with 42 children in New Braunfels, TX; and
- ◆ 20 families with from three to nine children each in Kern County, CA, half of whom had children return from care, and 20 families in Stanislaus, CA.

#### **Cost-effectiveness**

Helping families stay together is not only humane public policy, but it is cost-effective. Investments in housing assistance to help prevent the placement of a child into foster care, or to hasten the return of a child to his family, can help avoid far greater foster care costs. For example, providing a family with Section 8 assistance costs approximately \$6,700 a year per family, compared with \$10,000 a year per child to keep a child in foster care -- and many families have more than one child in care.

#### **Interagency Collaboration and Cooperation**

The Family Unification Program requires collaboration between housing authorities and child welfare agencies to ensure that the families most in need benefit from the program. As a result, in numerous communities child welfare and housing agencies are formally consulting and collaborating for the first time, seeking to better understand how their operations can be mutually beneficial for the families they serve. In several sites, the public child welfare agencies have developed service plans and offered ongoing services to families who are receiving Family Unification certificates and are enrolled in HUD's Family Self Sufficiency Program. Such collaboration is essential to the operation of the Family Unification Program.

#### **Broader Reforms**

The Family Unification Program also already has had benefits beyond the individual children and families served. States have used the program as a catalyst, many for the first time, to enhance cooperation and coordination between state and local child welfare and housing agencies so that together they can make their respective service delivery systems more responsive to the needs of vulnerable children and families in their communities.

- ◆ In St. Louis, for example, the Lawyers Project Subcommittee on Foster Care and Inadequate Housing used the opportunity of the 1992 announcement of funding for the Family Unification Program as a catalyst to bring legal services attorneys, court officials, public housing and child welfare staff, and community organizations together to examine the links between homelessness and family separation. Two training conferences have been held and foundation support has enabled continued advocacy, education, and networking to address the housing needs of families at risk of initial or prolonged placement.

## Promotion of Family Support and Preservation

The Family Unification Program is an essential part of a National Family Support and Family Preservation Policy, complementing the Administration's Family Preservation and Support Services Program enacted in August 1993, which protects children by strengthening families. It is consistent with other steps taken by the Department of Housing and Urban Development to help homeless families stay together. Continuation of the Family Unification Program provides HUD and HHS a unique opportunity to work together at the federal, state and local levels to pursue their goals of ending homelessness and of supporting and preserving families.

For example, the Family Unification Program has already been a key resource for Michigan's Families First program, a family preservation services program which offers intensive home-based services to families for four to six weeks and has had to relocate an estimated 50 percent of the families in the program in Detroit because of housing problems. Other states also are looking at the Family Unification Program as well as other resources as ways to address the housing needs of families at risk of separation as they begin to implement the new Family Preservation and Support Program.

The Children's Defense Fund appreciates the Committee's leadership on behalf of housing assistance for these vulnerable children and families who are threatened with family break-up due to homelessness and other housing problems. The Family Unification Program has given these families hope and we look forward to working with you to see that the program is continued. Thank you.

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